

POSTED
07/21/03

ACCEPTED
Legal 7/21/03 JMB

BEFORE THE
SOUTH CAROLINA
PUBLIC SERVICE COMMISSION

Application of)

XO LONG DISTANCE SERVICES, INC.)

)
to Expand its Telecommunications Authority)
to Include Competitive Resold and)
Facilities-Based Local Exchange Services)
in the State of South Carolina and for Flexible)
Regulation of Its Service Offerings.)

Docket No. 2003-224-C

APPLICATION AND REQUEST FOR EXPEDITED TREATMENT

XO Long Distance Services, Inc. ("XOLD" or "Applicant"), currently an authorized interexchange carrier in South Carolina, through its undersigned attorneys and pursuant to S.C. CODE § 58-9-280 (1999), the Telecommunications Act of 1996, 47 U.S.C. §253, and to all relevant Rules and Regulations of the South Carolina Public Service Commission ("Commission"), respectfully requests that the Commission grant it additional authority to provide competitive resold and facilities-based local exchange services in the State of South Carolina and to grant Applicant regulation of its service offerings through procedures approved for standard flexible regulation granted by the Commission to other CLECs in accordance with Order No. 98-165 in Docket No. 97-467-C (NewSouth Communications LLC). Applicant is prepared to begin offering local exchange service to consumers in South Carolina on or about *September 1, 2003*. Thus, Applicant requests expedited review of this Application, to the extent necessary, to enable XOLD to offer both local and interexchange services by that date, on the grounds that the Commission has previously deemed the Applicant financially, administratively, and technically qualified to provide telecommunications services in South Carolina. In support of its Application, XOLD provides the following information:

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RECEIVED
JUL 22 2003
UTILITIES DEPARTMENT

I. THE APPLICANT

A. Corporate Information

1. XO Long Distance Services, Inc., a corporation organized and existing under the laws of the State of Washington, is a wholly owned subsidiary of XO Communications, Inc. ("XO"), a Delaware corporation. Both companies are headquartered at: 11111 Sunset Hills Road, Reston, Virginia 20190, (703) 547-2000. XOLD is authorized by the Commission to provide intra state and interstate interexchange telecommunications services pursuant to Docket No. 1999-0374-C. Through its operating subsidiaries, XO provides bundled local and long distance as well as dedicated voice and data telecommunications services primarily to business customers. It operates broadband fiber optic networks in more than 60 major metropolitan markets in the United States. XO also is one of the nation's largest holders of fixed wireless spectrum, covering 95% of the population of the 30 largest U.S. cities, and has deployed fixed wireless technology in 27 of these cities. A copy of XOLD's Articles of Incorporation were filed in its initial interexchange certification docket, but a copy also is appended hereto as *Exhibit A*.

2. XOLD is authorized to transact business in South Carolina as a foreign corporation as evidenced by the Certificate of Authority appended hereto as *Exhibit B*.

3. XO is authorized, through its subsidiaries, to provide intrastate interexchange services virtually nationwide, including in South Carolina, pursuant to the authority cited above. XO also is authorized, through its subsidiaries, to provide local exchange services in approximately 30 states, not including in South Carolina. XO wishes to expand its local exchange operations in several other states, including in South Carolina; thus, Applicant is filing this Application. XO also offers domestic and international telecommunications services pursuant to FCC Section 214 authorizations. Its international offerings are incidental to its core domestic business.

B. Officers and Directors

The following is a list of XO's officers and directors:

Carl J. Grivner, Chief Executive Officer and Director

Wayne Rehberger, Chief Financial Officer

Kim Albano, Vice President, Chief Service Officer

John Curran, Vice President, Chief Technology Officer

Rob Geller, Chief Information Officer

John Jacquay, President, Business Market Sales

Doug Kelly, Executive Vice President of Network Services

Brian Oliver, Executive Vice President Strategy and Corporate Development

Jimmie Walton Paschall, Vice President, Human Resources

Lee Weiner, Sr. Vice President and General Counsel

Carl Icahn, Chairman and Director

Vincent Intrieri, Director

Keith Meister, Director

Adam Dell, Director

Andrew R. Cohen, Director

The full business experience of XO's management team is set forth in detail in *Exhibit C*, which also contains the biographies and a brief description of the business experience of key management and operational personnel who will be responsible for XO's provision of telecommunications services in South Carolina and throughout the United States.

4. All of the above-referenced officers may be reached through XO's principal office at the following address:

XO COMMUNICATIONS, INC.
11111 Sunset Hills Road
Reston, Virginia 20190
(703) 547-2000

II. DESIGNATED CONTACTS

5. The designated contacts for this Application are:

Faye A. Flowers
 PARKER POE ADAMS & BERNSTEIN L.L.P
 1201 Main Street, Suite 1450
 Post Office Box 1509
 Columbia, South Carolina 29202-1509
 Telephone: (803) 253-8912
 Facsimile: (803) 255-8017
 Email: fayeflowers@parkerpoe.com

Nicole Oden
 Eric D. Jenkins
 KELLEY DRYE & WARREN LLP
 1200 19th Street, N.W., Suite 500
 Washington, D.C. 20036
 Telephone: (202) 955-9600
 Facsimile: (202) 955-9792
 Email: ejenkins@kelleydrye.com

6. Copies of all correspondence, notices, inquiries and orders also should be sent to the following representatives of the Applicant:

Nancy Krabill
 Director, Regulatory and External Affairs
 XO COMMUNICATIONS, INC.
 2700 Summit Avenue #172
 Plano, Texas 75074
 Telephone: (214) 237-7883
 Email: nancy.krabill@xo.com

III. PROPOSED SERVICES

7. By this Application, XOLD seeks to expand its authority to provide telecommunications services in South Carolina to include facilities-based and resold local exchange telecommunications services, in addition to interexchange services. Applicant requests authority to provide local exchange services, in addition to interexchange services, on a statewide basis.

8. As of the date of the filing of this Application, various subsidiaries of XO are authorized to provide interexchange services virtually nationwide. Through its subsidiaries, XO also is authorized to provide local exchange services in approximately 30 states, and in the near future, intends to apply for authority to provide local exchange services in all the remaining states.

9. XOLD seeks authority to expand its telecommunications authorization in South Carolina to include the authority to provide a full array of facilities-based and resold local exchange services including, but not limited to, basic voice, exchange access, private line and data transmission services. These services will be provided primarily to business customers. Initially, Applicant plans to provide these voice and data services via UNE-P and resale. XOLD may, however, expand its network into South Carolina if economically feasible in the future.

10. All of the regulated local telecommunications services offered by XOLD in South Carolina will be provided pursuant to the terms and conditions set forth in XOLD's proposed local exchange tariff. Appended hereto as *Exhibit D* are Applicant's illustrative tariffs for Local Exchange and Access Services. Applicant will file a final tariff, according to Commission rules, prior to providing service. XOLD will continue to offer interexchange services pursuant to its existing tariff.

IV. QUALIFICATIONS

A. Managerial and Technical Qualifications

11. In support of its Application, XOLD submits the following information to demonstrate that it has sufficient managerial and technological telecommunications experience and expertise, as well as the financial stability adequate to ensure its continued provision of quality local exchange and interexchange telecommunications services within the State of South Carolina.

12. Applicant is well-qualified managerially, technically and financially to provide the competitive local exchange services for which authority is requested in this Application, as well as to continue to provide interexchange services to current customers. In particular, XO's management team includes individuals with extensive technical and managerial experience in successfully developing and operating telecommunications businesses. This is evident by the

fact that, among them, Applicant's corporate officers have over 100 years of experience in the telecommunications industry with companies such as Global Crossing, Cable & Wireless PLC, MCI, AT&T Wireless, GTE, Ameritech, US West/Qwest, and McCaw Cellular. The expertise of these individuals range from the areas of customer care and marketing to design and engineering to financial and upper level management. Details of XO's management and technical experience are appended hereto as *Exhibit C*.

B. Financial Qualifications

13. Upon emergence from Chapter 11 bankruptcy earlier this year, XO benefited from a major reduction in debt and the creation of a new credit facility. Under the terms of its new financing arrangement ("New Credit Agreement"), XO maintains \$500 million in outstanding principal under a secured credit facility and guaranty agreement (the "New Facility"). The maturity date of the outstanding principal is July 15, 2009. XO is not required to pay cash interest accrued on the principal amount under the New Credit Agreement until XO meets certain financial ratios. There are no additional borrowings available under the New Credit Agreement, although under certain circumstances, the New Credit Agreement permits XO to obtain a senior secured credit facility of up to \$200 million (the "Additional Loan"), less the amount of any proceeds for an anticipated \$200 million rights offering. The security for the New Credit Agreement includes XOLD's guarantee and a security interest in its assets. In South Carolina, XOLD notified the Commission of this financing arrangement on November 2, 2002.

14. As specifically demonstrated in XO's financial statements appended hereto as *Exhibit E*, XOLD has sufficient capital on hand to fund the development and operation of its telecommunications network in South Carolina, and to meet any lease and ownership obligations associated with its provision of local exchange and interexchange services. Specifically, as shown in *Exhibit E*, XO's SEC Form 10-Q filing for the quarterly period ended March 31, 2003

that includes condensed consolidated balance sheets, statements of operations and statement of cash flows, Applicant has approximately \$288.8 million in cash and cash equivalents, and \$249.6 million in marketable securities, resulting in a total of \$538.4 million available for the expansion of its business.

C. Customer Service

15. Applicant is dedicated to providing superior customer service. Customer care representatives are available 24 hours a day, seven days a week, to assist in questions and concerns about products, services, billing or any other area of need. Customers can contact XO toll-free at 1-888-575-6398 or use the online support options on the Internet at <http://www.xo.com/care>.

V. BILLING INFORMATION

16. XOLD will bill all of its end-user customers directly. XOLD does not intend to utilize a billing agent in issuing bills for services rendered to end users. XOLD will not use a “billing clearinghouse” or other outside entity to issue bills to its customers. All bills sent to end-user customers will bear the company's name and provide a toll-free number for customer inquiries and complaints.

VI. WAIVERS AND REGULATORY COMPLIANCE

17. Applicant requests a waiver of the Commission’s requirement’s under 26 S.C. Regs. 103-610 to keep its records and reports in the State of South Carolina. Applicant will have a registered agent located within the state and understands that it will bear any costs associated with the Commission’s inspection of books and records. Applicant further requests a waiver of the Requirement of Rule 103-631 to publish and distribute local exchange directories. Applicant will enter into an agreement with applicable ILECs to include the names of its customers in those directories. Finally, Applicant requests that it be exempt from any record keeping rules or

regulations that might require a carrier to maintain its financial records in conformance with the Uniform System of Accounts ("USOA"). The USOA was developed by the Federal Communications Commission as a means of regulating telecommunications companies subject to rate base regulation. As a competitive carrier, Applicant will not be subject to rate base regulation and therefore requests Commission approval to maintain its books in accordance with Generally Accepted Accounting Principles ("GAAP").

VII. FLEXIBLE REGULATION

18. In Docket No. 97-467-C (NewSouth Communications LLC), the Commission approved a rate structure which incorporated maximum rate levels with the flexibility for adjustment below the maximum rate levels. The Commission determined that local tariff filings would be presumed valid upon filing, subject to the Commission's right within thirty (30) days to institute an investigation of a tariff filing and that any such tariff filing would be subject to the same monitoring process as similarly situated competitive local exchange carriers. Applicant submits that as a local exchange competitor it should be subject to regulatory constraints no greater than those imposed in the above-mentioned docket. The Applicant requests that its local exchange service tariff filings be regulated under this form of flexible regulation.

VIII. PUBLIC INTEREST CONSIDERATIONS

19. Approval of this Application is in the public interest because XOLD is well-qualified – technically, managerially, and financially – to serve the South Carolina public as a facilities-based and resold local exchange carrier. Moreover, permitting XOLD to provide the services described in this Application will expand service options for customers in South Carolina, and will increase and facilitate competition in South Carolina by expanding the diversity of suppliers within the telecommunications market place -- without any adverse impact on the Commission's goals of universal service and affordable telecommunications services for

the residents of South Carolina.

20. Applicant's participation in the market for local exchange and interexchange telecommunications services in South Carolina will promote consumer choice by expanding the availability of innovative, high quality, reliable and competitively priced telecommunications services. Approval of this Application also is likely to compel other local telecommunications providers to improve their existing services, increase the quality and efficiency of their operations, and introduce innovative new services of their own. Moreover, the addition of XO South Carolina to the South Carolina local telecommunications market makes it probable that consumers of telecommunications services in South Carolina will receive the benefits of downward pressure on prices, improved customer responsiveness and access to increasingly advanced telecommunications technology.

IX. EXPEDITED RELIEF

21. Applicant requests expedited approval of this Application, as the Commission previously has deemed Applicant financially, managerially and technically qualified to provide local exchange telecommunications services to South Carolina consumers. *See* Docket No. 1999-0374-C, Order No. 2000-0455. Simultaneously with the filing of this Application, Applicant is filing its verified, prefiled testimony of Nancy Krabill supporting the granting of the Application. Given that the Commission has recently authorized Applicant to provide telecommunications services in South Carolina, Applicant respectfully requests that the Commission issue its order requiring that, following the requisite notice of publication and assuming that no intervenors exist, the Commission dispense with the hearing in this matter and approve Applicant's Application, as filed, as expeditiously as possible.

WHEREFORE, XO Long Distance Services, Inc., respectfully requests that the Commission grant it a Certificate of Public Convenience and Necessity to provide competitive resold and facilities-based local exchange telecommunications services throughout the State of South Carolina as described in this Application and pursuant to the tariff that Applicant submits to the Commission. Applicant further requests expedited action on this Application to the extent necessary so that it can begin to offer service to consumers on or about September 1, 2003.

Respectfully submitted,

XO LONG DISTANCE SERVICES, INC.

By: Faye A. Flowers
 Faye A. Flowers
 PARKER POE ADAMS & BERNSTEIN L.L.P
 1201 Main Street, Suite 1450
 Post Office Box 1509
 Columbia, SC 29202-1509
 (803) 253-8912

and

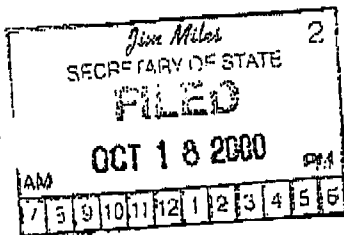
Brad E. Mutschelknaus
 Melissa S. Conway
 Eric D. Jenkins
 KELLEY, DRYE & WARREN LLP
 1200 19th Street, N.W.
 Suite 500
 Washington, D.C. 20036
 (202) 955-9600

Dated: July 17, 2003

XO LONG DISTANCE SERVICES, INC.
EXHIBIT A

EXHIBIT A

ARTICLES OF INCORPORATION



STATE OF SOUTH CAROLINA
SECRETARY OF STATE

CERTIFIED TO BE A TRUE AND CORRECT COPY
AS TAKEN FROM AND COMPARED WITH THE
ORIGINAL ON FILE IN THIS OFFICE

APPLICATION FOR AN AMENDED CERTIFICATE
OF AUTHORITY BY A FOREIGN CORPORATION
TO TRANSACT BUSINESS IN SOUTH CAROLINA

OCT 18 2000

Jim Miles
SECRETARY OF STATE OF SOUTH CAROLINA

TYPE OR PRINT CLEARLY WITH BLACK INK

Pursuant to Section 33-15-104 of the 1976 South Carolina Code of Laws, as amended, the undersigned corporation hereby applies for an amended certificate of authority to transact business in the State of South Carolina and for that purpose submits the following statement:

1. The name of the corporation is NEXTLINK Long Distance Services, Inc.
- 1a. The above named corporation received a Certificate of Authority to transact business in South Carolina on June 25, 1999.
2. This application is filed for the following reason (complete all applicable items):
 - ☒ a. The corporation has changed its corporate name as follows XO Long Distance Services, Inc.
 - ☐ b. The corporation has changed its duration to _____
 - ☐ c. The corporation has changed the state or country of its incorporation to _____
3. The name of the corporation for the purpose of transacting business in South Carolina is (See Sections 33-4-101 and 33-15-106) and see Section 33-19-500(b)(1) if the corporation is a professional corporation _____
4. It is incorporated as (check applicable item) ☒ a general business corporation, ☐ a professional corporation under the laws of the state of Washington
5. The date of its incorporation is 02/26/1999 and the period of its duration is Perpetual
6. The address of the principal office of the corporation in the jurisdiction of its incorporation is _____
500-108th Avenue, NE, Suite 2200 in the city of Bellevue
 Street Address
 and the state of Washington 98004
 Zip Code
7. The address of the registered office in the state of South Carolina is 1301 Gervais Street
 Street Address
 in the city of Columbia, South Carolina 29201
 Zip Code
8. The name of the registered agent in this state at such address is _____
 Corporation Service Company
9. The name and usual business address of the corporation's directors (if the corporation has no directors, then the name and address of those persons who are exercising the statutory authority of directors on behalf of the corporation) and principal officers:

NEXTLINK Long Distance Services, Inc.
Name of Corporation

a) Name of Directors
see attached rider

Business Address

b) Name and Office of
Principal Officers
see attached rider

Business Address

10. The aggregate number of shares which the corporation has authority to issue, itemized by classes and series, if any, within a class:

Class of Shares (and Series, if any)

Authorized No. of Each Class (and Series)

common

1000

11. Unless a delayed date is specified, this application shall be effective when accepted for filing by the Secretary of State (See Section 33-1-230): _____

Date 10/03/00

XO Long Distance Services, Inc.
Name of Corporation

Richard C. Mouton
Signature of Officer

Richard A. Mouton, Jr.
Type or Print Name and Office

NEXTLINK Long Distance Services, Inc.Name of CorporationFILING INSTRUCTIONS

1. Two copies of this application, the original and either a duplicate original or a conformed copy must be filed.
2. If the space in this form is insufficient, please attach additional sheets containing a reference to the appropriate paragraph in this form.
3. Schedule of Fees (payable at the time of filing this document)

Fee for filing Application	\$ 10.00
Filing Tax	100.00
Total (payable to the Secretary of State)	\$ 110.00
4. If the applicant corporation's domestic name is unavailable in South Carolina, then it must file a certified copy of the board of director's resolution approving the fictitious name along with this application pursuant to Section 33-15-106(a)(2), (additional \$10 filing fee)

Return to: Secretary of State
P.O. Box 11350
Columbia SC 29211

SECTION 33-15-103 AND CORRECT COPY
 AND COMPARED WITH THE
 ORIGINAL ON FILE IN THIS OFFICE

JUN 25 1999

J. Miles
 SECRETARY OF STATE OF SOUTH CAROLINA

STATE OF SOUTH CAROLINA
 SECRETARY OF STATE
 JIM MILES

APPLICATION BY A FOREIGN CORPORATION
 FOR A CERTIFICATE OF AUTHORITY
 TO TRANSACT BUSINESS
 IN THE STATE OF SOUTH CAROLINA

Jim Miles												2
SECRETARY OF STATE												
FILED												
JUN 25 1999												
AM SOS EXPRESS PM												
7	8	9	10	11	12	1	2	3	4	5	6	

Pursuant to §33-15-103 of the 1976 South Carolina Code, as amended, the undersigned corporation hereby applies for authority to transact business in the State of South Carolina, and for that purpose, hereby submits the following statement:

- The name of the corporation is (see §§3-4-101 and 33-15-106 and see §33-19-500(b)(1) if the corporation is a professional corporation) NEXTLINK Long Distance Services, Inc.
- It is incorporated as (check applicable item) (x) a general business corporation, () a professional corporation, under the laws of the state of Washington
- The date of its incorporation is February 26, 1999 and the period of its duration is Perpetual
- The address of the principal office of the corporation is Suite 2200, 500 108th Avenue N.E. (Street & Number) in the city of Bellevue and the state of WA
- The address of the proposed registered office in the state of South Carolina is 1301 Gervais Street in the city Columbia (Street & Number) in South Carolina 29201 (Zip Code)
- The name of the proposed registered agent in this state at such address is Corporation Service Company
- The name and usual business address of the corporation's directors (if the corporation has no directors, then the name and address of those persons who are exercising the statutory authority of directors on behalf of the corporation) and principal officers:
 - | Name of directors | Business Address |
|--|------------------|
| <u>See attached officers/directors rider</u> | |
| | |
| | |
 - | Name and Office of Principal officers | Business Address |
|--|------------------|
| <u>See attached officers/directors rider</u> | |
| | |
| | |
- The aggregate number of shares which the corporation has authority to issue, itemized by classes and series, if any, within a class:

Class of Shares and Series	Authorized Number of Each Class and Series
<u>Common</u>	<u>1,000</u>

9. Unless a delayed date is specified, this application shall be effective when accepted for filing by the Secretary of State (See §33-1-230): _____

10. Date this 17th day of June, 19 99

NEXTLINK Long Distance Services, Inc.

By: Jay S. Hull
(Signature of Officer)
Jay S. Hull, Assistant Secretary
(Type or Print Name and Office)

FILING INSTRUCTIONS

- Two copies of this application, the original and with a duplicate original or a conformed copy, must be filed.
- If the space in this form is insufficient, please attach additional sheets containing a reference to the appropriate paragraph in this form.
- Schedule of Fees (Payable at the time of filing this document):

Fee for filing Application	\$10.00
Filing Tax	\$100.00
Minimum License Fee	<u>\$25.00</u>
(Payable to Secretary of State)	\$135.00

- Thus form must be accompanied by the initial annual report of corporations, a check in the amount of \$25.00 payable to the S.C. Tax Commission, and a certificate of existence from a state official of the jurisdiction where the corporation is incorporated.
- If the applicant corporation is adopting a fictitious name for use in South Carolina pursuant to §33-15-106(e), then a certified copy of the board of directors resolution approving the fictitious name must be attached to the application.
- If the applicant is a foreign professional corporation, then in addition to satisfying the name requirements in §§ 33-19-150 and 33-19-500(b)(1), the following information must be included in the application:
 - A statement that the corporation's sole business purpose is to engage in a specified form of professional services (e.g. law firm).
 - A statement that all of its shareholders not less than one-half of its directors, and all of its officers other than its secretary and treasurer, if any, are licensed in one or more states to render a professional service described in its articles of incorporation.

NEXTLINK LONG DISTANCE SERVICES, INC.

OFFICERS/DIRECTORS RIDER

The address for each of the following directors and officers is:

500 - 108th Avenue N.E.
Suite 2200
Bellevue, WA 98004

Directors:

George M. Tronsrue III

R. Bruce Easter, Jr.

Kathleen Iskra

Officers:

George M. Tronsrue III

CEO, COO, President

Charles P. Daniels

Vice President

Jan Loichle

Vice President

R. Bruce Easter, Jr.

Vice President, Secretary, General Counsel

Kathleen Iskra

Vice President, CFO, Treasurer

R. Gerard Salemmme

Senior Vice President

Michael McHale

Vice President

Jay D. Hull

Assistant Secretary

Richard A. Montfort, Jr.

Assistant Secretary

The State of South Carolina



Office of Secretary of State Mark Hammond **Certificate of Authorization**

I, Mark Hammond, Secretary of State of South Carolina Hereby certify that:

XO LONG DISTANCE SERVICES, INC.,

a corporation duly organized under the laws of the state of **WASHINGTON** and issued a certificate of authority to transact business in South Carolina on **June 25th, 1999**, has on the date hereof filed all reports due this office, paid all fees, taxes and penalties owed to the Secretary of State, that the Secretary of State has not mailed notice to the Corporation that its authority to transact business in South Carolina is subject to being revoked pursuant to Section 33-15-310 of the 1976 South Carolina Code, and no application for surrender of authority to do business in South Carolina has been filed in this office as of the date hereof.

Given under my Hand and the Great Seal of the State of South Carolina this 11th day of July, 2003.

A handwritten signature in black ink that reads "Mark Hammond".

Mark Hammond, Secretary of State

EXHIBIT C

MANAGEMENT BIOGRAPHIES

XO Management Team

Carl J. Grivner **Chief Executive Officer**

Carl J. Grivner was named Chief Executive Officer of XO Communications effective May 15, 2003.

Mr. Grivner's career in telecom and technology spans more than 25 years. He previously served as Chief Operating Officer at Global Crossing. Prior to joining Global Crossing in June 2000, Mr. Grivner served as Chief Executive Officer of Worldport Communications and before that he served as Chief Executive Officer, Western Hemisphere, of Cable & Wireless PLC. Additionally, Mr. Grivner has held various senior executive positions at Advanced Fiber Communications and Ameritech. Mr. Grivner began his career working in sales at IBM. He also served in the United States Marine Corps from 1975-1978.

Wayne Rehberger **Chief Financial Officer**

Wayne Rehberger joined XO in September 2000 and was named Chief Financial Officer in December 2000. He is responsible for all of the XO financial and administrative functions.

Rehberger brings over 20 years of diversified telecommunications management experience to XO including having served in a number of executive financial roles at MCI Communications Corporation, and as Senior Vice President of Finance at MCI WorldCom prior to joining XO.

Prior to joining MCI, Rehberger was a manager in KPMG's consulting practice in Washington, D.C.

Kim Albano **Vice President, Chief Service Officer**

Kim Albano is Vice President, Chief Service Officer of XO where she is responsible for building and leading Customer Service Operations.

Albano brings over 20 years of customer service program development to her position. Prior to her current appointment, she served as Vice President, Customer Care of the XO North Region.

Prior to joining XO, Albano was the vice president of customer care for AT&T Wireless and served in various other customer care leadership roles for the company (previously McCaw Cellular Communications). Albano also led customer service operations at Nestle Foods Corporation for 10 years. Albano's development and execution of customized care operations

earned her team recognition in 1996 and 1997 from J.D. Power and Associates for providing the highest level of customer satisfaction for wireless service providers.

John Curran
Vice President, Chief Technology Officer

John Curran is the XO Chief Technology Officer. He is responsible for overseeing the successful development of the XO IP network.

Prior to joining XO, Curran served as Chief Technical Officer at GTE Internetworking where he was responsible for strategic technology direction, including establishing the overall strategy for products and services. He led design activities for GTE Internetworking's global network infrastructure with emphasis on scaling, management, and security issues.

Prior to joining GTE Internetworking, he held a strategic networking position at BBN where he had technology responsibility for several of the early Internet networks (CSNET and NEARNET) and the NSFNET Network Service Center (NNSC), the main coordination center for the Internet.

Robert Geller
Chief Information Officer

Robert Geller is the XO Chief Information Officer. He is responsible for overseeing all the Company's IT Operations.

Since joining XO in 2001, Rob has significantly improved the quality, timeliness and cost management of IT operations. Additionally, he has overseen the development of several architecture plans including those that directly impact the ability for XO to provide superior service and delivery to customers.

Prior to joining XO, Geller served as the Senior Vice President of Information Technology at US West/Qwest where he played a pivotal role in raising delivery standards and producing key systems for long distance entry, DSL ordering and activation, wireless, e-business for all of the company's business units and consumer marketing.

Prior to US West/Qwest, Geller was the Vice President of Software Development for MCI where he held a variety of senior executive positions.

John Jacquay
President, National Sales Operations

John Jacquay is the XO President of National Accounts. He is responsible for building the world class XO National, Federal and Carrier Account organization.

Prior to joining XO, Jacquay was the CEO and Chairman of Pagoo, a Voice on the Internet Software Company. Upon selling this business, he transitioned back to the telecom sector by joining XO.

Prior to Pagoo, Jacquay was President and COO of GRIC Communications, Chief Operating Executive of the Regulated Industries Unit of MCI Systemhouse; President of Network Services at US One (one of the pioneer CLECs), and held various sales and P&L leadership positions at MCI. Jacquay started his career at GTE Corporation in a variety of roles in Finance, IT, Marketing and Sales.

Doug Kelly
Executive Vice President of Network Services

Doug Kelly is Executive Vice President of Network Services at XO Communications. In this role, he oversees all service delivery, service assurance and network performance functions and is responsible for the end-to-end customer experience, from order entry, through service installation, billing and customer care.

Prior to joining XO, Mr. Kelly founded DEK Consulting Services which provided both technical and business analyses to telecom firms involved in acquisitions, business development and restructuring strategies. Prior to that, he was President, Network Services for Global Crossing. He also held several senior management positions at MCI including Vice President Network Management, Vice President Central Operations and Director of West Operations. Mr. Kelly also held positions at New York Telephone Company and AT&T.

Mr. Kelly holds a B.S. degree from Clarkson University and an MBA from University of Rochester's Simon School of Management.

Brian Oliver
Executive Vice President of Strategy and Corporate Development

Brian Oliver is Executive Vice President of Strategy and Corporate Development at XO Communications. In this role, Mr. Oliver manages the company's strategic planning process and is responsible for implementing corporate development activities such as identifying, negotiating and closing acquisitions, partnerships and other such relationships. In addition he oversees the technical development activities associated with optimizing the value of XO's wealth of LMDS spectrum.

Mr. Oliver's career in telecom spans more than 20 years. Prior to joining XO, he was the Founder, Chairman and CEO of Cambrian Communications, a facilities-based metropolitan area network provider, delivering end-to-end, all-optical network solutions between New York and Washington, DC. Prior to forming Cambrian, Mr. Oliver was the founder, President and CEO of Wave International, Inc. He also held various senior positions at Bell Atlantic Corporation

including Vice President of Corporate Development and Vice President of Federal Regulatory Relations. In addition, Mr. Oliver was an active board member for Pontio Communications.

Mr. Oliver earned a Bachelor of Science degree in Civil Engineering and Environmental Engineering from Cornell University.

Jimmie Walton Paschall
Vice President, Human Resources

Jimmie Paschall is Vice President, Human Resources for XO where she is responsible for the XO human resource strategies and programs.

Prior to her role with XO, Paschall served as Vice President, Human Resource Systems and Services for Sodexho Marriott Services, a provider of food and beverage and facilities management services with sales of \$4.5 billion and 100,000 employees in over 5000 locations. Before joining Sodexho Marriott Services, Paschall served in a number of senior management positions in both Human Resources and Corporate and Community Relations with Marriott International and Host Marriott Services.

Lee Weiner
Senior Vice President and General Counsel

Lee Weiner is Senior Vice President and General Counsel at XO Communications. In this role he oversees all of the company's legal affairs.

Prior to joining XO, Mr. Weiner was Executive Vice President, General Counsel and Secretary at Net2000 Communications, Inc. He also served as Vice President and Acting General Counsel/Senior Associate Counsel at Qwest Communications International, Inc. after its merger with LCI International, Inc. Prior to that, he was Vice President and General Counsel at LCI International, Inc. Mr. Weiner also held several senior positions at MCI Telecommunications Corporation.

Mr. Weiner has a J.D. degree from American University Washington College of Law and an A. B. degree in Political Science from Vassar College.

EXHIBIT D

ILLUSTRATIVE TARIFFS

XO Long Distance Services, Inc.
ACCESS SERVICES TARIFF
South Carolina PSC

Original Title Page

XO LONG DISTANCE SERVICES, INC.
REGULATIONS, DESCRIPTIONS, AND RATES
APPLICABLE TO FURNISHING COMPETITIVE INTRASTATE ACCESS SERVICES
WITHIN THE STATE OF SOUTH CAROLINA

This tariff is on file with the South Carolina Public Service
Commission and copies may be inspected during normal
business hours at the Company's principal place of business
at 11111 Sunset Hills Road, Reston, Virginia, 20190

Dana Shaffer, Vice President
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Nashville, TN 37201
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XO Long Distance Services, Inc.
ACCESS SERVICES TARIFF
South Carolina PSC

Original Page 1

CHECK SHEET

The Title Page through Page 82 inclusive of this tariff are effective on the date shown. Original and revised pages as named below contain all changes from the original tariff that are in effect on the date shown.

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ISSUED: XXXXX, 2003

EFFECTIVE: XXXX, 2003

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ACCESS SERVICES TARIFF
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ACCESS SERVICES TARIFF
South Carolina PSC

Original Page 3

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate switched access within the State of South Carolina by XO Long Distance Services, Inc. hereinafter referred to as ("the Company").

ISSUED: XXXXX, 2003

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ACCESS SERVICES TARIFF
South Carolina PSC

Original Page 4

EXPLANATION OF SYMBOLS, REFERENCE MARKS, AND ABBREVIATIONS OF
TECHNICAL TERMS USED IN THIS TARIFF.

Revisions of this tariff are coded through the use of symbols. These symbols appear in the right margin of the sheet. The symbols and their meanings are:

- (C) To signify changed conditions or regulations.
- (D) To signify discontinued rate, regulation, or condition.
- (I) To signify increase.
- (M) To signify a move from one page to another with no change to text, regulation or tariff.
- (N) To signify a new rate, regulation, condition, or sheet.
- (O) To signify no change.
- (R) To signify reduction.
- (T) To signify a change in text for clarification.

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XO Long Distance Services, Inc.
ACCESS SERVICES TARIFF
South Carolina PSC

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XO Long Distance Services, Inc.
ACCESS SERVICES TARIFF
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Original Page 6

1. Definitions

Please refer to Company's Local Exchange Services Tariff, for applicable Definitions.

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ACCESS SERVICES TARIFF
South Carolina PSC

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2. REGULATIONS

Please refer to Company's Local Exchange Services Tariff, for applicable Regulations.

ISSUED: XXXXX, 2003

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ACCESS SERVICES TARIFF
South Carolina PSC

Original Page 8

3.0 JURISDICTIONAL REPORTING

3.1 Description and Requirements

The jurisdictional reporting requirements will be as specified below. When a Customer orders access service, its projected percent interstate usage (PIU) must be provided in whole numbers to the Company. These whole number percentages will be used by the Company to apportion the use and/or charges between interstate and intrastate until a revised report is received as set forth herein.

(a) Originating Access

Originating access minutes may be based on traffic originating at the state, LATA or local switching center level, provided that the traffic being measured is only traffic originating from the Company local switching center(s). The Customer must provide the Company with a projected PIU factor on a quarterly basis, as specified herein.

If no PIU for originating minutes is submitted, then the projected PIU will be set on a default basis of 50 percent interstate traffic and 50 percent intrastate traffic.

(b) Terminating Access

Terminating access minutes may be based on traffic terminating at the state, LATA or local switching center level, provided that the traffic being measured is only traffic terminating to the Company local switching center(s). The Customer must provide the Company with a projected PIU factor on a quarterly basis, as specified below. If no PIU for originating minutes is submitted, then the projected PIU will be set on a default basis of 50 percent interstate traffic and 50 percent intrastate traffic.

- (c) Except where the Company measured access minutes are used, the Customer reported projected PIU factor as set forth above will be used until the Customer reports a different projected PIU factor, as set forth below. The revised report will serve as the basis for future billing and will be effective on the next bill date.

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3.0 JURISDICTIONAL REPORTING (Cont'd)

3.1 Description and Requirements (Cont'd)

- (d) Effective on the first of January, April, July and October of each year the Customer shall update its interstate and intrastate jurisdictional report. The Customer shall forward to the Company, to be received no later than 15 days after the first of such month, a revised report showing the interstate and intrastate percentage of use for the past three months ending the last day of December, March, June and September, respectively, for each service arranged for interstate use, based solely on the traffic originating from or terminating to the Company's local switching center. The revised report will serve as the basis for the next three months billing and will be effective on the bill date for that service. If the Customer does not supply the reports for those services where reports are needed, the Company will assume the percentage to be the same as that provided previously. For those cases in which a quarterly report has never been received from the Customer, the Company will assume the percentages to be the same as those provided in the access service request.

(e) Jurisdictional Reports Verification

For Switched Access Service, if a billing dispute arises or a regulatory commission questions the projected PIU factor, the customer will provide the data issued to determine the projected PIU factor. The Customer will supply the data within 30 days of the Company request.

The Customer shall keep records of call detail from which the percentage of interstate and intrastate use can be ascertained and, upon request of the Company, shall make the records available for inspection as reasonably necessary for purposes of verification of the percentages. The Company reserves the right to conduct an audit at any time during the year. The Customer, at its own expense, has the right to retain an independent auditing firm.

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XO Long Distance Services, Inc.
ACCESS SERVICES TARIFF
South Carolina PSC

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4.0 SERVICE DESCRIPTIONS

4.1 Switched Access Service

4.1.1 Description of Services

Company Switched Access Service consists of the services offered pursuant to this Tariff. Service is offered via the Company's facilities and/or in combination with resold exchange services, transmission facilities provided by other certificated carriers, or a combination thereof.

Under this tariff, the Company is only responsible for the services and facilities it provides under this tariff, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own Customers.

The provision of Company's Services is subject to and contingent upon the Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. The Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses and permits that may be required to be obtained. The Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the Services into conformance with any rules, regulations, orders decisions, or directives imposed by the Federal Communication Commission or other applicable agency, and the Customer shall fully cooperate in and take such action as may be requested by the Company to comply with any such rules, regulations, orders, decisions, or directives.

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XO Long Distance Services, Inc.
ACCESS SERVICES TARIFF
South Carolina PSC

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4.0 SERVICE DESCRIPTIONS (Cont'd)

4.1 Switched Access Service (Cont'd)

4.1.2 Billing of Access Minutes

When recording originating calls over FGD with multifrequency address signaling, usage measurement begins when the first wink supervisory signal is forwarded from the Customer's facilities. The measurement of originating call usage over FGD ends when the originating FGD entry switch receives disconnect supervision from either the originating end user's local switching center (indicating that the originating end user has disconnected), or the Customer's facilities, whichever is recognized first by the entry switch.

For terminating calls over FGD with multifrequency address signaling, the measurement of access minutes begins when a seizure signal is received from the Carrier's trunk group at the point of presence within the LATA. The measurement of terminating call usage over FGD ends when a disconnect signal is received, indicating that either the originating or terminating user has disconnected.

When recording originating calls over FGD with SS7 signaling, usage measurement begins with the transmission of the initial address message by the switch for direct trunk groups and with the receipt of an exit message by the switch for tandem trunk groups. The measurement of originating FGD usage ends when the entry switch receives or sends a release message, whichever occurs first.

For terminating calls over FGD with SS7 signaling, the measurement of access minutes begins when the terminating recording switch receives the initial address message from the terminating end user. On directly routed trunk groups or on tandem routed trunk groups, the Company switch receives the initial address message and sends the indication to the Customer in the form of an answer message. The measurement of termination FGD call usage ends when the entry switch receives or sends a release message, whichever occurs first.

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ACCESS SERVICES TARIFF
South Carolina PSC

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4.0 SERVICE DESCRIPTIONS (Cont'd)

4.1 Switched Access Service (Cont'd)

4.1.3 Application of Rates

The rate for switched access is assessed based on the monthly usage charges for end-office switching and tandem switched transport. Usage rates are rates that are applied on a per access minute or per query basis.

4.1.4 Rates

(a) End Office Switching Charge:

<u>Per Access Minute of Originating Use</u>	<u>Per Access Minute of Termination Use</u>
\$ TBD	\$ TBD

(b) Tandem Switched Transport Charge

<u>Per Access Minute of Originating Use</u>	<u>Per Access Minute of Terminating Use</u>
\$ TBD	\$ TBD

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XO Long Distance Services, Inc.
LOCAL EXCHANGE SERVICES TARIFF
South Carolina PSC

Original Title Page

XO Long Distance Services, Inc.
Regulations, Descriptions, and Rates
Applicable to Furnishing
Local Exchange Services
within the State of South Carolina

This tariff is on file with the South Carolina Public Service
Commission and copies may be inspected during normal
business hours at the Company's principal place of business
at 11111 Sunset Hills Road, Reston, Virginia, 20190

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XO Long Distance Services, Inc.
LOCAL EXCHANGE SERVICES TARIFF
South Carolina PSC

Original Page 1

CHECK SHEET

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LOCAL EXCHANGE SERVICES TARIFF
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LOCAL EXCHANGE SERVICES TARIFF
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LOCAL EXCHANGE SERVICES TARIFF
South Carolina PSC

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XO Long Distance Services, Inc.
LOCAL EXCHANGE SERVICES TARIFF
South Carolina PSC

Original Page 6

**EXPLANATION OF SYMBOLS, REFERENCE MARKS, AND ABBREVIATIONS OF
TECHNICAL TERMS USED IN THIS TARIFF.**

Revisions of this tariff are coded through the use of symbols. These symbols appear in the right margin of the sheet. The symbols and their meanings are:

- (C) To signify changed conditions or regulations.
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- (R) To signify reduction.
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TARIFF FORMAT

- A. **Sheet Numbering** – page numbers appear in the upper right corner of the page. Pages are numbered sequentially. When a new page is added between pages already in affect, a decimal is added. For example, a new page added between pages 14 and 15 would be 14.1.
- B. **Sheet Revision Numbers** – Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the South Carolina Public Service Commission (hereafter “the Commission”). For example, the 4th revised page 14 cancels the 3rd revised page 14. Consult the Check Page for the page currently in effect.
- C. **Check Sheets** – When a tariff filing is made with the Commission, an updated Check Sheet accompanies the tariff filing. The Check Sheet lists the pages contained in the tariff, with a cross reference to the current revision number. When new pages are added, the Check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*).

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XO Long Distance Services, Inc.
LOCAL EXCHANGE SERVICES TARIFF
South Carolina PSC

Original Page 7

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate communications services by XO Long Distance Services, Inc., (hereafter, "the Company"), to Customers within the local exchange service area defined herein.

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XO Long Distance Services, Inc.
LOCAL EXCHANGE SERVICES TARIFF
South Carolina PSC

Original Page 8

1. DEFINITIONS

Certain terms used generally throughout this tariff are defined below.

Access: A connection between a Customer premise and a point of presence of an Interchange Company for the transmission of voice, data, or video / image information.

Advance Payment: Payment of all or part of a charge required before the start of service.

Anonymous Call Rejection: This feature allows the subscriber to reject incoming calls from callers who have intentionally blocked their caller identification information.

Authorized User: A person, firm, corporation or other entity that either is authorized by the Customer to use local exchange telephone service or is placed in a position by the Customer, either through acts or omissions, to use local exchange telephone service.

Automatic Callback: This feature allows a subscriber to place a call to the last line the subscriber called. If the destination line is busy, it is monitored for 30 minutes until it becomes idle and can accept the call.

Automatic Line (Hotline): Directs the line to automatically call a preassigned number when a line user lifts the handset.

Automatic Recall: This feature allows a subscriber to place a call to the last station that called the subscriber. If the destination line is busy, it is monitored for 30 minutes until it becomes idle and can accept the call.

Call Forward Busy: Automatically routes incoming calls to a designated answering point when the called line is busy.

Call Forwarding of Call Waiting Calls: This service provides the capability to forward unanswered waiting calls to a subscriber-designated directory number by using the combined call treatments of Call Waiting and Call Forward Don't Answer. An incoming call to a busy line first receives standard call waiting treatment in which the called party hears an audible tone and the calling party hears audible ringing. If the call is not answered after a period of time that is equal to the time-out value of Call Forward Don't Answer, the incoming call is given Call Forward Don't Answer treatment and is forwarded to a subscriber-designated directory number.

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1. DEFINITIONS (Cont'd)

Call Forward Doesn't Answer Ring Select (Subscriber Programmable Ringing): Allows the subscriber with the Call Forward Doesn't Answer option to program the number of rings before a call is forwarded. The subscriber dials an access code, receives a special dial tone, and enters the desired number of rings, from two to nine. A confirmation tone is provided if the operation is successful, and from this point on any incoming call that is unanswered is forwarded after the newly specified number of rings. The new ringing time-out value stays in effect until it is changed.

Call Forward No Answer: Automatically routes incoming calls to a designated answering point when the called line does not answer within a pre-specified number of rings.

Call Forward, Remote Access: Combines Call Forward Variable with remote access capability from any touch tone or tone capable telephone.

Call Forward Variable: Automatically routes incoming calls to a designated answering point, regardless of whether the User's Station is idle or busy.

Call Hold: Allows the User to hold one call for any length of time provided that neither party goes On Hook.

Call Park: Allows the User to "park" a call against their directory number within the business group and "unpark" the call from any other directory number. A business group consists of a series of Customer-defined telephone numbers.

Call Pickup: Allows the User to answer incoming calls to another Station line within a defined call pickup group. Call Pickup is provided as either Group Call Pickup, where pre-designated groups can pick up each other's calls by activating an access code or a feature key, or Directed Call Pickup, where any call can be retrieved by dialing a different access code followed by the extension number.

Call Rounding: Where applicable, the price per call will be rounded to the nearest penny using natural rounding. There will be a minimum charge of \$0.01 per call. This will cover those calls where the call rounding listed above may generate a cost of \$0.00.

Call Transfer: Provides the capability to transfer a call to another telephone number.

Call Waiting: Provides the User with a burst of tone to indicate that another call is waiting. The second call can either be answered by flashing the switch hook or hanging up the phone and the new call will be received.

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LOCAL EXCHANGE SERVICES TARIFF
South Carolina PSC

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1. DEFINITIONS (Cont'd)

Call Waiting Cancel: Allows the User to cancel the Call Waiting feature on a per call basis by dialing a specific two digit code.

Caller ID Blocking: This feature is available in two methods, per line or per call. The per line blocking feature automatically blocks the telephone number for originating calls. The User can selectively unblock calls on a per call basis by dialing a two-digit code before dialing. Per call blocking allows the User to selectively block Caller ID information from being transmitted by dialing a two-digit code before dialing.

Calling Number Delivery: Identifies the 10 digit number of the calling party.

Calling Number Delivery Blocking: Blocks the delivery of the number to the called party on a per call basis.

Calling Number Delivery with Name: Identifies the 10 digit number and the name of the calling party.

Circuit Switching: A switching technique in which an entire circuit or, in a digital switch equipped for ISDN, a specific selection of time slots is dedicated to a given call.

Class of Service (COS): Used to prevent a Station from dialing certain codes and numbers.

Commission: The South Carolina Public Service Commission.

Company: XO Long Distance Services, Inc., a Washington corporation, which is the issuer of this tariff.

Common Carrier: An authorized company or entity providing telecommunications services to the public.

Company Calling Card: A telephone calling card issued by the Company at the Customer's request, which enables the Customer or User(s) authorized by the Customer to place telephone calls and to have the charges for such calls billed to the Customer's account.

Conference Calling - Meet Me: Allows conferees to hold a conference on a six party conference bridge by having all attendees dial into a directory number at a specified time.

Conference / Three Way: The User can sequentially call up to two other people and add them together to make up a three-way call.

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1. DEFINITIONS (Cont'd)

Customer: The person, firm, corporation or other entity which orders or uses service for commercial purposes and is responsible for the payment of charges and for compliance with the Company's tariff regulations.

Customer Group Dialing Plan: A dialing scheme shared by the members of a Customer group, such as 4 digit internal dialing.

Customer Owned Coin Operated Telephone (COCOT): A Customer Owned Coin Operated Telephone is an individual exchange dial tone line for use by pay phone service providers, location owners and interexchange carriers to connect coin, or combination coin/coinless pay telephones to the Telephone Company's network.

Dedicated: A facility or equipment system or subsystem set aside for the sole use of a specific Customer.

Dial Pulse (DP): The pulse type employed by rotary dial Station sets.

Distinctive Ringing/Call Waiting: With this service, incoming calls from up to 12 DN's (DMS-100) can be automatically identified by distinctive ringing. A distinctive ringing pattern (short-long-short for the DMS-100) accompanies incoming calls from the designated DN's. If a subscriber is engaged in conversation and a call from one of the designated DN's arrives, a distinctive call waiting tone (short-long-short) accompanies the incoming call. Calls from all other DN's ring normally.

Do Not Disturb: Allows the User to prevent incoming calls from ringing its line by diverting them to a tone or a recorded announcement that informs the caller that the User is not accepting calls at this time.

Duplex Service: Service which provides for simultaneous transmission in both directions.

Electronic Set Interface per PDN: This feature allows for the connection of a Business Set to the Central Office through a special interface card

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1. DEFINITIONS (Cont'd)

Fiber Optic Cable: A thin filament of glass with a protective outer coating through which light beam carrying communications signals may be transmitted by means of multiple internal reflections to a receiver, which translates the message.

Ground Start: Describes the signaling provided by the terminal equipment or PBX/Key system interface requesting service from the Local Exchange Carrier switching system by putting a ground condition on the line.

Hotline: This feature automatically connects a User to a pre-designated number when the User goes Off-Hook.

Hunting: Routes a call to an idle Station line. With Serial Hunting, calls to a member of a hunt group will search from that point to the end of the group and stop.

Individual Case Basis (ICB): A service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the Customer's situation.

InterLATA Service: Service which originates within one local access transport area (LATA) and terminates in a different LATA.

IntraLATA Service: Service which originates and terminates within the same local access transport area (LATA).

Joint User: A person, firm or corporation designated by the Customer as a user of local exchange service furnished to the Customer by the Company, and to whom a portion of the charges for such facilities are billed under a joint use arrangement.

LATA: A local access and transport area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192 for the provision and administration of communications services.

Local Access: The connection between a Customer premise and Company point of presence.

Local Calling: A completed call or telephonic communication between a calling Station and any other station within the local service area of the calling Station.

Local Exchange Carrier: Any individual, partnership, association, joint-stock company, trust governmental entity or corporation engaged in the provision of local exchange telephone service.

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1. DEFINITIONS (Cont'd)

Mbps: Megabits, or million of Bits, per second.

Message Toll Service: A service that provides facilities for telecommunications between different local calling areas of the same LATA in accordance with the regulations and schedule of rates specified in this tariff. The rates specified in this tariff are in payment for all services furnished between the calling and called stations.

Message Waiting: This feature provides an indication to a Station User that a message is waiting. Indications may be visual (lamp) or audible (stuttered dial tone). This feature is available with Voicemail Subscription.

Most Idle Trunk Selection (MIDL): MIDL Trunk selection occurs when a switching unit selects from a Trunk group the Trunk that has been idle for the longest period of time.

MOU: Minutes of Use.

Multi-Frequency (MF): An inter-machine pulse-type used for signaling between telephone switches, or between telephone switches and PBX/key systems.

Network: The Company's digital fiber optics-based network.

Network Services: The Company's telecommunications access services offered on the Company's network.

Node: The Company office where all Customer facilities are terminated for purposes of interconnection to trunks and/or cross-connection to distant ends.

Non-Recurring Charges: The one-time initial charges for services or facilities, including but not limited to charges for construction, installation, or special fees, for which the Customer becomes liable at the time the Service Order is executed.

Off-Hook: The term "off-hook" denotes the active condition of a telephone exchange service line.

On-Hook: The term "on-hook" denotes the idle condition of a telephone exchange service line.

Originating Off-Net: A call originating on and placed via non-company owned or company leased facilities.

Originating On-Net: A call originating on and placed via company owned or company leased facilities.

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1. DEFINITIONS (Cont'd)

Pay Telephone Line: A Pay Telephone line is an individual exchange dial tone line service designed for use with station controlled pay telephone instruments.

PIU: Percent Interstate Usage

Point to Point Service: An unswitched full time transmission service utilizing the Company's facilities to connect two or more Customer designated locations.

Premises: The space occupied by a Customer or authorized user in a building or buildings or contiguous property (except railroad right-of-way, etc.) not separated by a highway.

Presubscription: Presubscription is an arrangement whereby an end user may select and designate a carrier, without an access code, for intraLATA and interLATA calls.

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Remote Call Forwarding (RCF): A service to allow a telephone number in one exchange (RCF number) to automatically forward by telephone company equipment to a second telephone number in the same or different exchange.

Selective Call Acceptance: Allows the subscriber to set up a list of up to 12 directory numbers that should always be able to call the subscriber. When activated, only callers on this list will be connected to the subscriber's line. All other callers hear an announcement.

Selective Call Forwarding (SCF): Allows subscribers to ensure that selected calls reach them when they are away from the office. Incoming calls from up to 12 directory numbers can be forwarded to another location. Calls from directory numbers that are not on the SCF list can be picked up at the office—or receive whatever treatment the subscriber has arranged, such as answering machine or voice mail. If the SCF destination is busy, the originator will receive busy tone.

Selective Call Rejection: Allows the subscriber to set up a list of up to 12 directory numbers indicating telephone numbers from which the subscriber does not wish to receive calls. When activated a number on the list that tries to call will hear an announcement and will not be connected.

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1. DEFINITIONS (Cont'd)

Service Commencement Date: The first day following the date of Customer's first use of service or, in the case of a written request or Service order, the day which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance of service. The parties may mutually agree on a substitute Service Commencement Date.

Service Order: The written request for services executed by the Customer and the Company in a format specified by the Company or the use of Company Services by the Customer. The signing of a Service Order by the Customer and acceptance thereof by the Company or the use of Company Services initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

Services: The Company's telecommunications services offered on the Company's network.

Shared: A facility or equipment system or subsystem which can be used simultaneously by several Customers.

Special Access Service: Dedicated access between a Customer's Premises and another Point of Presence for the purpose of originating and terminating communications.

Speed Dial: Provides the User with the option to call selected directory numbers by dialing a one or two-digit code.

State: South Carolina

Station: Telephone equipment from or to which calls are placed.

Station to Station: Service where the person originating the call from other than a public or semipublic coin telephone dials the telephone number desired and the call is completed without the assistance of the Company operator and the call is not billed to a number other than the originating number.

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1. DEFINITIONS (Cont'd)

Supplementary Directory Number Service: This feature allows the subscriber up to four telephone numbers assigned to the same physical line. Each number would have its own distinctive ring, and differing Call Waiting tones.

Switched Access: Access to the switched network of an Exchange Carrier for the purpose of originating or terminating communications.

Three Way Calling: Allows a station to include a third party on a call. If the originator disconnects from the call the 3-Way call is ended, unless the originator's Business Line has Call Transfer in which case the remaining two callers are joined. The originator is billed for all toll or usage charges.

Toll Free Off-Net: Toll Free Service terminating on non-Company owned or Company leased local exchange facilities.

Toll Free On-Net: Toll Free Service terminating on Company owned or Company leased local exchange facilities.

Toll Free Service: Refers to 8XX service.

Trunk: A communications path connecting two switching systems in a network, used in the establishment of an end-to-end connection.

User: A Customer or any other person authorized by the Customer to use service provided under this tariff.

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2. REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service in connection with one-way and/or two-way information transmission between points within the State.

Customers may use services and facilities provided under this tariff to obtain access to services offered by other service providers. The Company is responsible under this tariff only for the services and facilities provided herein, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own Customers.

2.1.2 Shortage of Equipment or Facilities

- (a) The Company reserves the right to limit or allocate the use of existing facilities, or of additional facilities offered by the Company when necessary because of lack of facilities or due to some other cause beyond the Company's control.
- (b) The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's fiber optic cable facilities as well as facilities the Company may obtain from other carriers, from time to time, to furnish service as required at the sole discretion of the Company.

2.1.3 Terms and Conditions

- (a) Except as otherwise provided herein, service is provided and billed on the basis of a minimum period of at least one month, and shall continue to be provided until canceled by the Customer, in writing, on not less than 30 days prior notice. Unless otherwise specified herein, for the purpose of computing charges in this tariff, a month is considered to have 30 days. All calculations of dates set forth in this tariff shall be based on calendar days, unless otherwise specified herein.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions (Cont'd)

- (b) Customers may be required to enter into written Service Orders which shall contain or reference the name of the Customer, a specific description of the service ordered, the rate to be charged, the duration of the services, and the terms and conditions in this tariff.
- (c) Company Service Agreements shall be effective upon complete execution by the parties. The term shall be set forth on the Service Order and shall commence on the service activation date. Either party providing the other written notice at least thirty (30) days prior to the termination date may terminate the agreement at the end of the term. Company will notify Customer, in writing, at least sixty (60) days prior to the expiration of the agreement, regarding the pending expiration of the agreement and the automatic renewal provision of the agreement. If the Customer does not cancel the agreement before the end of the term, Company will automatically renew the agreement for a similar term at the rates on the Service Order Agreement. In the event of early termination of the agreement by Customer, or termination by Company for material breach, Customer shall pay Company all non-recurring charges reasonably expended to establish service to the Customer; any disconnect, early cancellation, or early termination charges incurred and paid to third parties on behalf of customer; plus all recurring charges for the balance of the then term.
- (d) This tariff shall be interpreted and governed by the laws of the State.
- (e) Another telephone company must not interfere with the right of any person or entity to obtain service directly from the Company.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions (Cont'd)

- (f) 1) The assignment of a telephone number to a Customer's telephone service will be made at the discretion of the Company. The Customer has no property right to the telephone number or any other call number designation associated with services furnished by the Company. The Company reserves the right to assign, designate or change telephone numbers, any other call number designations associated with services provided under this tariff, or the Company service Central Office prefixes associated with such numbers, when the Company deems it necessary in the conduct of its business or as required by a regulatory body or by law.
- 2) In the event that Customer anticipates its need for Company services will increase, Company may, at Customer's request, reserve telephone numbers to meet Customer's expected growth. Company will reserve telephone numbers for a maximum forty-five (45) day period (the "Reservation Period"). Customer must place the reserved numbers in-service prior to termination of the Reservation Period. Otherwise, pursuant to federal regulations, the reserved numbers will return to Company's telephone number inventory at the termination of the Reservation Period. A renewal of the Reservation Period is not permitted. Company will make all attempts to reserve the specific telephone numbers identified by the Customer. Company reserves the right to substitute numbers when necessary in the conduct of its business or as required by a regulatory body or by law.
- (g) The Customer agrees to operate Company-provided equipment in accordance with instructions of the Company or the Company's agent. Failure to do so will void Company liability for interruption of service and may make the Customer responsible for damage to equipment pursuant to section (h) below.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions (Cont'd)

- (h) The Customer agrees to return to the Company all Company-provided equipment delivered to the Customer within five (5) days of termination of the service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to the Customer, normal wear and tear only excepted. The Customer shall reimburse the Company, upon demand, for any costs incurred by the Company due to the Customer's failure to comply with this provision.

2.1.4 Liability of the Company

Because the Customer has exclusive control of its communications over the services furnished by the Company, and because interruptions and errors incident to these services are unavoidable, the services the Company furnishes are subject to the terms, conditions, and limitations specified in this tariff and to such particular terms, conditions, and limitations as set forth in the special regulations applicable to the particular services and facilities furnished under this tariff.

- (a) The liability of the Company for damages arising out of the furnishing of these services, including but not limited to mistakes, omissions, interruptions, delays, errors, other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts of commission or omission, shall be limited to the lesser of \$500 or, in the event of a failure of service, an amount equal to no more than the proportionate charge (based on the rates then in effect) for the service during the period of time in which the service is affected. The extension of such allowances for interruption shall be the sole remedy of the Customer, authorized user, or joint user and the sole liability of the Company.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

- (b) The Company shall not be liable or responsible for any special, consequential, exemplary, lost profits, or punitive damages, whether or not caused by the intentional acts or omissions or negligence of the Company's employees, agents or contractors.
- (c) The Company shall not be liable for any failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or any civil or military authority; national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials; or strikes, lock-outs, work stoppages, or other labor difficulties.
- (d) The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers facilities or equipment used for or with the services the Company offers.
- (e) The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer provided equipment or facilities.
- (f) The Company shall not be liable for the claims of vendors supplying equipment to Customers of the Company which may be installed at premises of the Company nor shall the Company be liable for the performance of said vendor or vendor's equipment.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

- (g) The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of any installation so provided.
- (h) The Company is not liable for any defacement of or damage to the premises of a Customer (or authorized or joint user) resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, when such defacement or damage is not the result of negligence or willful misconduct on the part of the agents or employees of the Company.
- (i) The Company shall not be liable for any damages resulting from delays in meeting any service dates due to delays resulting from normal construction procedures. Such delays shall include, but not be limited to, delays in obtaining necessary regulatory approvals for construction, delays in obtaining right-of-way approvals and delays in actual construction work.
- (j) The Company shall not be liable for any damages whatsoever to property resulting from the installation, maintenance, repair or removal of equipment and associated wiring unless the damage is caused by the Company's willful misconduct or negligence.
- (k) The Company shall not be liable for any damages whatsoever associated with service, facilities, or equipment which the Company does not furnish or for any act or omission of the Customer or any other entity furnishing services, facilities or equipment used for or in conjunction with Company Service.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

- (l) The Company shall not incur any liability, direct or indirect, to any person who dials or attempts to dial the digits "9-1-1" or to any other person who may be affected by the dialing of the digits "9-1-1".
- (m) The Company shall not be liable for damages arising out of errors in or omissions from directories, or will the Company be a party to controversies arising between customers or others as a result of listings in directories. The Company shall not be liable for damages arising out of errors in or omissions from directories when the listing information has been submitted by a customer on behalf of its patron.
- (n) THE COMPANY MAKES NO REPRESENTATION OR WARRANTY EITHER EXPRESS OR IMPLIED INCLUDING BUT NOT LIMITED TO ANY IMPLIED WARRANTIES OF MERCHANTABILITY AND/OR FITNESS FOR A PARTICULAR PURPOSE, AND ASSUMES NO OBLIGATION WITH RESPECT TO THE ENFORCEMENT OF ANY MANUFACTURER'S WARRANTIES AND GUARANTEES. NO DEFECT, UNFITNESS, OR OTHER CONDITION OF SYSTEM EQUIPMENT OR SERVICES SHALL RELIEVE CUSTOMER OF THE OBLIGATION TO PAY AND CHARGES HEREUNDER OR PERFORM ANY OTHER OBLIGATIONS UNDER THIS AGREEMENT.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as outage resulting from cable damage, notification to the Customer may not be possible.

2.1.6 Provision of Equipment and Facilities

- (a) Where construction is required, the Company shall use reasonable efforts to make available services to the Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.
- (b) The Company shall use reasonable efforts to maintain facilities that it furnishes to the Customer. The Customer may not, nor may the Customer permit others to, rearrange, disconnect, remove, attempt to repair or otherwise interfere with any of the facilities installed by the Company, except upon the written consent of the Company.
- (c) Equipment installed at the Customer Premises for use in connections with the services the Company offers shall not be used for any purpose other than that for which the Company provided it.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.6 Provision of Equipment and Facilities (Cont'd)

- (d) The Company shall not be responsible for the installation, operation, or maintenance of any Customer provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Beyond this responsibility, the Company shall not be responsible for:
- (1) the transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or
 - (2) the reception of signals by Customer provided equipment; or
 - (3) network control signaling where such signaling is performed by Customer-provided network control signaling equipment.

2.1.7 Non-routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.8 Ownership of Facilities

Title to all facilities provided in accordance with this tariff remains in the Company, its agents or contractors.

2.1.9 Special Construction

Subject to the arrangement of the Company and to all of the regulations contained in this tariff, special construction of facilities may be undertaken on a reasonable effort basis at the request of the Customer. Special construction is that construction undertaken:

- (a) where Company facilities are not presently available, and Company agrees to construct those facilities;
- (b) of a type other than that which the Company would normally utilize in the furnishing of its services;
- (c) over a route other than that which the Company would normally utilize in the furnishing of its services;
- (d) in a quantity greater than that which the Company would normally construct;
- (e) on an expedited basis;
- (f) on a temporary basis until permanent facilities are available;
- (g) involving abnormal costs; or
- (h) in advance of its normal construction.

Special construction charges will be determined on a case by case basis.

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2. REGULATIONS (Cont'd)

2.2 Prohibited Uses

- 2.2.1 The service the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.
- 2.2.2 The Company may require the Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

- (a) the payment of all applicable charges pursuant to this tariff;
- (b) reimbursing the Company for damage to, or loss of, the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer's premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company. The Company will, upon reimbursement for damages, cooperate with the Customer in prosecuting a claim against the person causing such damage and the Customer shall be subrogated to the Company's right of recovery of damages to the extent of such payment.
- (c) providing at no charge, as specified from time to time by the Company, any needed personnel, equipment, space and power to operate Company facilities and equipment installed on the premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;

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2. REGULATIONS (Cont'd)

2.3 Obligations of the Customer (Cont'd)

2.3.1 General (Cont'd)

- (d) obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduit necessary for installation of fiber optic cable and associated equipment used to provide local exchange service to the Customer from the cable building entrance or property line to the location of the equipment space described in 2.3.1(c). Any costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;
- (e) providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. asbestos) prior to any construction or installation work;
- f) complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company facilities and equipment in any Customer premises or the rights-of-way for which the Customer is responsible under Section 2.3.1(d) above; and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;

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2. REGULATIONS (Cont'd)

2.3 Obligations of the Customer (Cont'd)

2.3.1 General (Cont'd)

- (g) not creating or allowing to be placed or maintained any liens or other encumbrances on the Company's equipment or facilities; and
- (h) making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance for interruptions in service will be made for the period during which service is interrupted for such purposes.

2.3.2 Claims

With respect to any service or facility provided by the Company, the Customer shall indemnify, defend and hold harmless the Company from all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees for:

- (a) any loss, destruction or damage to property of the Company or any third party, or the death of or injury to persons, including, but not limited to, employees or invitees of either the Company or the Customer, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer, its employees, agents, representatives or invitees; or
- (b) any claim, loss damage, expense or liability for infringement of any copyright, patent, trade secret, or any proprietary or intellectual property right of any third party, arising from any act or omission by the Customer, including, without limitation, use of the Company's services and facilities in a name not contemplated by the agreement between the Customer and the Company

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2. REGULATIONS (Cont'd)

2.3 Obligations of the Customer (Cont'd)

2.3.3 Liability for Calling Card Fraud

- a) The Customer is liable for the unauthorized use of the Company's facilities, equipment, and services obtained through the fraudulent or other unauthorized use of a Company Calling Card, provided that the unauthorized use occurs before the Company has been notified.
- b) The Customer's liability for unauthorized use shall not exceed the lesser of \$50.00 or the amount of services obtained by the unauthorized use prior to notification to the Company. Notwithstanding the foregoing, in situations where the Company issues ten (10) or more calling cards to a Customer for use by its employees, the Company and the Customer may agree on the Customer's liability for unauthorized use on a case by case basis without regard to this subsection.
- c) The Customer must give the Company notice that unauthorized use of a Company Calling Card has occurred or may occur as a result of loss, theft or other reasons. Written notice shall be sent to the Company's address as designated pursuant to Section 2.6(e) and will be effective when received, and oral notice shall be made by contacting a Company representative at the Company's business office or by telephone at the Company's listed telephone number. For the purposes of this section, notice occurs when the Company receives oral or written confirmation that unauthorized use of a Company Calling Card has occurred or may occur as a result of loss, theft or other reasons.
- d) The Company may, but is not required to, advise the Customer of abnormal calling patterns or other possible unauthorized use of Company Calling Cards assigned to the Customer. In addition, the Company may, but is not required to, block calls on a Company Calling Card personal identification number which the Company believes to be unauthorized or fraudulent.

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2. REGULATIONS (Cont'd)

2.3 Obligations of the Customer (Cont'd)

2.3.3 Liability for Calling Card Fraud (Cont'd)

- (e) Except as otherwise provided in Section 2.6(b), all notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.

2.4 Customer Equipment and Channels

2.4.1 General

A Customer may transmit or receive information or signals via the facilities of the Company.

2.4.2 Station Equipment

- (a) The Customer is responsible for providing and maintaining any terminal equipment on the Customer premises. The electric power consumed by such equipment shall be provided by, and maintained at the expense of, the Customer. All such terminal equipment must be registered with the FCC under 47 C.F.R., Part 68 and all wiring must be installed and maintained in compliance with those regulations. The Company will, where practical, notify the Customer that temporary discontinuance of the use of a service may be required; however, where prior notice is not practical, nothing contained herein shall be deemed to impair the Company's right to discontinue forthwith the use of a service temporarily if such action is reasonable under the circumstances. In case of such temporary discontinuance, the Customer will be promptly notified and afforded the opportunity to correct the condition which gave rise to the temporary discontinuance. During such period of temporary discontinuance, credit allowance for service interruptions as set forth in Section 2.6 following is not applicable.

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2. REGULATIONS (Cont'd)

2.4 Customer Equipment and Channels (Cont'd)

2.4.2 Station Equipment (Cont'd)

- (b) The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

2.4.3 Interconnection of Facilities

- (a) Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing local exchange service and the channels, facilities, or equipment of others may be provided at the Customer's expense.
- (b) Local Service may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers which are applicable to such connections.
- (c) Facilities furnished under this tariff may be connected to Customer provided terminal equipment in accordance with the provisions of this tariff.

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2. REGULATIONS (Cont'd)

2.4 Customer Equipment and Channels (Cont'd)

2.4.4 Inspections

- (a) Upon reasonable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in Section (b) for the installation, operation, and maintenance of Customer-provided facilities and equipment to Company-owned facilities and equipment. No credit will be allowed for any interruptions occurring during such inspections.
- (b) If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice the customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm. The Company will, upon request 24 hours in advance, provide the Customer with a statement of technical parameters that the Customer's equipment must meet.

2.5 Payment Arrangements

2.5.1 Payment for Service

The Customer is responsible for payment of all charges for service and facilities furnished by the Company to the Customer or its Joint or Authorized Users. Objections must be received by the Company within 30 days after statement of account is rendered, or the charges shall be deemed correct and binding upon the Customer. If an entity other than the Company imposes charges on the Company, in addition to its own internal costs, in connection with a service for which a Company Non-Recurring Charge is specified, those charges may be passed on to the Customer.

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

2.5.1 Payment for Service (Cont'd)

- (a) Taxes: The Customer is responsible for the payment of any sales, use, gross receipts, excise, access or other local, state and federal taxes, charges, user fees, or surcharges (however designated) excluding taxes on the Company's net income imposed on or based upon the provision of Services, all of which shall be separately designated on the Company's invoices. Any taxes imposed by a local jurisdiction (e.g. County and municipal taxes) will only be recovered from those Customers residing in the affected jurisdictions. It shall be the responsibility of the Customer to pay any such taxes that subsequently become applicable retroactively.
- (b) A surcharge is imposed on all charges for service originating at addresses in states which levy, or assert a claim of right to levy, a gross receipt tax on the Company's operations in any such state, or a tax on interstate access charges incurred by the Company for originating access to telephone exchanges in that state. This surcharge is based on the particular state's receipts tax and other state taxes imposed directly or indirectly upon the Company by virtue of, and measured by, the gross receipts or revenues of the Company in that state and/or payment of interstate access charges in that state. The surcharge will be shown as a separate line item on the Customer's monthly invoice.

2.5.2 Billing and Collection of Charges

Bills will be rendered monthly to the Customer. Billing will begin on the Service Commencement Date. The parties may mutually agree upon a substitute Service Commencement date. If Customer notifies Company in writing that it is not prepared to utilize the Services or facility after Company has notified the Customer that the requested Service or facility is ready for use, Company may begin billing the Customer on the Service Commencement Date.

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

2.5.2 Billing and Collection of Charges (Cont'd)

- (a) The Company shall present bills monthly to the Customer for Recurring Charges in advance of the month which service is provided. Usage charges will be billed in arrears.
- (b) For new customers or existing customers whose service is disconnected, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.
- (c) Amounts not paid within 30 days after the date of invoice are considered past due.
- (d) A \$25.00 charge will be assessed for checks with insufficient funds or non-existing accounts. Business Customers will be assessed a late fee on past due amounts in the amount of the lesser of 1.5 % per month or a maximum lawful rate under applicable state law.
- (e) From time to time, the Company will grant credits against usage or recurring charges per Customer account, per monthly billing period, whenever the Company determines, in its sole discretion, that such a credit is warranted due to consideration or disputes involving the delivery of past service to the Customer or account receiving the credit.

2.5.3 Disputed Bills

The Customer shall notify the Company of any disputed items on a bill within 30 days of receipt of the bill. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the Commission, in accordance with the Commission's rules of procedure.

The date of the dispute shall be the date the Company receives notice from Customer. The date of the resolution is the date the Company completes its investigation and notifies the Customer of the disposition of the dispute.

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

2.5.4 Advance Payments

To safeguard its interests, the Company may require a Customer to make an Advance Payment before services and facilities are furnished. The Advance Payment will not exceed an amount equal to the Non-Recurring Charge(s) and three months' charges for the service or facility. In addition, where special construction is involved, the Advance Payment may also include an amount equal to the estimated Non-Recurring Charges for the special construction and Recurring Charges (if any) for a period to be set between the Company and the Customer. The Advance Payment will be credited to the Customer's initial bill. An Advance Payment may be required in addition to a deposit.

2.5.5 Deposits

- (a) Applicants for service or existing Customers whose financial condition is not acceptable to the Company, or is not a matter of general knowledge, may be required at any time to provide the Company a security deposit. The deposit requested will be in cash or the equivalent of cash, and will be held as a guarantee for the payment of charges. A deposit does not relieve the Customer of the responsibility for the prompt payment of bills on presentation. The deposit will not exceed an amount equal to:
- (1) two month's charges for a service or facility which has a minimum payment period of one month; or

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

- (2) the charges that would apply for the minimum payment period for a service or facility which has a minimum payment period of more than one month; except that the deposit may include an additional amount in the event that a termination charge is applicable. In addition, the Company shall be entitled to require such an applicant or Customer to pay all its bills within a specified period of time, and to make such payments in cash or the equivalent of cash. At the Company's option, such deposit may be refunded to the Customer's account at any time. Also, the Company reserves the right to cease accepting and processing Service Orders after it has requested a security deposit and prior to the Customer's compliance with this request.
- (b) A deposit may be required in addition to an advance payment.
- (c) When a service or facility is discontinued, the amount of a deposit, if any, will be applied to the Customer's account and any credit balance remaining will be refunded. Before the service or facility is discontinued, the Company may, at its option, return the deposit or credit it to the Customer's account.
- (d) Deposits held will accrue interest at a rate specified by the Commission.

2.5.6 Discontinuance of Service

- (a) Upon nonpayment of any amounts owing to the Company, the Company may, by giving requisite prior written notice to the Customer in accordance with applicable state law, discontinue or suspend service without incurring any liability.
- (b) Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving 30 days prior notice in writing to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

- (c) Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.
- (d) Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, failing to discharge an involuntary petition within the time permitted by law, or abandonment of service, the Company may, with prior notice to the customer, immediately discontinue or suspend service without incurring any liability.
- (e) Upon any governmental prohibition, or required alteration of the services to be provided or any violation of any applicable law or regulation, the Company may immediately discontinue or suspend service without incurring any liability.
- (f) The Company may discontinue the furnishings of any and/or all service(s) to the Customer, without incurring any liability:
 - (1) Immediately if the Company deems that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or services. The Company may discontinue service pursuant to this sub-section if:
 - (a) use of service in such a manner as to interfere with the service of other users; or
 - (b) use of service for unlawful purposes.

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

2.5.6 Discontinuance of Service (Cont'd)

- (2) Upon ten (10) days written notice to the Customer, after failure of the Customer to comply with a request made by the Company for security for the payment of service in accordance with Section 2.5.5; or
- (3) Ten (10) days after sending the Customer written notice of noncompliance with any provision of this tariff if the noncompliance is not corrected within that (10) day period; or
- (g) The suspension or discontinuance of service(s) by the Company pursuant to this Section does not relieve the Customer of any obligation to pay the Company for charges due and owing for service(s) furnished during the time of or up to suspension or discontinuance or for any and all applicable early termination charges.
- (h) Upon the discontinuance of service to the Customer under Section 2.5.6 (a) or 2.5.6 (b), all applicable charges, including early termination charges, shall become due, as specified in Section 2.7.2. This is in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff.

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2. REGULATIONS (Cont'd)

2.6 Allowances for Interruptions of Service

- 2.6.1 Credit for Interruptions: When the use of service or facilities furnished by the Company is interrupted due to any cause other than the negligence or willful act of the Customer, or the operation or failure of the facilities or equipment provided by the Customer, a pro rata adjustment of the monthly Recurring Charges subject to interruption will be allowed for the service and facilities rendered useless and inoperative by reason of the interruption whenever said interruption continues for a period of 24 hours or more from the time the interruption is reported to or known to exist by the Company, except as otherwise specified in the Company's tariffs. If the Customer reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but not interrupted.

For calculating credit allowances, every month is considered to have 30 days. A credit allowance is applied on a pro rata basis against the monthly Recurring Charges specified hereunder for Local Line or Local Trunk Service and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit. Credit allowances for service outages that exceed 24 hours in duration will be rounded up to the next whole 24 hours.

2.6.2 Limitations on Allowances

No credit allowance will be made for:

- (a) interruptions due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer, Authorized User, Joint-User, or other common carrier providing service connected to the service of the Company;
- (b) interruptions due to the negligence of any person other than the Company including but not limited to the Customer or other common carriers connected to the Company's facilities;
- (c) interruptions due to the failure or malfunction of non-Company equipment;
- (d) interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;

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2. REGULATIONS (Cont'd)

2.6 Allowances for Interruptions of Service (Cont'd)

2.6.2 Limitations on Allowances (Cont'd)

- (e) interruptions of service during a period in which the Customer continues to use the service on an impaired basis;
- (f) interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- (g) interruption of service due to circumstances or causes beyond the control of the Company.

2.6.3 Use of Alternative Service Provided by the Company: Should the Customer elect to use an alternative service provided by the Company during the period that a service is interrupted, the Customer must pay the tariffed rates and charges for the alternative service used.

2.7 Cancellation of Service

2.7.1. Cancellation of Application for Service

- (a) Applications for service can not be canceled unless the Company otherwise agrees. Where the Company permits the Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.
- (b) Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the Company incurred, less salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of service ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun.

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2. REGULATIONS (Cont'd)

2.7 Cancellation of Service (Cont'd)

2.7.1. Cancellation of Application for Service (Cont'd)

- (c) The special charges described in 2.7.1 (a) and 2.7.1 (b) will be calculated and applied on a case-by-case basis.

2.7.2 Cancellation of Service by the Customer

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than service interruption (as defined in 2.6.1 above), the Customer agrees to pay to Company the following sums which shall become due and owing as of the effective date of the cancellation or termination and be payable within the period set forth in 2.5.2: all costs, fees and expenses reasonable incurred in connection with:

- (a) all Non-Recurring Charges reasonably expended by Company to establish service to the Customer, plus
- (b) any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by Company on behalf of the Customer, plus
- (c) all early termination charges as specified in 2.7.3

The Customer should also give the Company at least thirty (30) days written or oral notice of the cancellation of service.

2.7.3 Early Termination Charges

Should Customer terminate service prior to the completion of the term specified in the Service Order, Customer shall be obligated to pay Company an early termination charge equal to all non-recurring and recurring charges for the remaining term plus 75% of the average monthly billings for service for the three months prior to the termination month (or such lesser period if fewer than three months of Service were utilized) multiplied by the number of remaining months in the term of the service plan. The early termination charges are due and payable immediately upon cancellation of service.

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2. REGULATIONS (Cont'd)

2.8 Transfer and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties (a) to any subsidiary, parent company or affiliate of the Company; (b) pursuant to any sale or transfer of substantially all the assets of the Company; or (c) pursuant to any financing, merger or reorganization of the Company.

2.9 Notices and Communications

2.9.1 The Customer shall designate on the Service Order, if applicable, or to the company directly, an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.

2.9.2 The Company shall designate on the Service Order, if applicable, or to the company directly, an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

2.9.3 All notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following deposit of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.

2.9.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

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2. REGULATIONS (Cont'd)

2.10 Jurisdictional Nature of Traffic

2.10.1 Customer agrees, represents and warrants that all traffic being delivered by Customer to Company for local termination, and all traffic that Company delivers to Customer that has originated in the same local calling area in which Customer's NXX is assigned and/or in which such traffic is terminated to Customer, is local traffic or is legally entitled to be treated as local traffic under all applicable federal, state and local laws, administrative and regulatory requirements and any other authorities having jurisdiction.

2.10.2 Customer further agrees to indemnify, defend and hold harmless Company and its parent company, affiliates, employees, directors, officers, and agents from and against all claims, demands, actions, causes of actions, damages, liabilities, losses, and expenses (including reasonable attorney's fees) incurred in connection with: Customer's breach or failure of any representation or warranty; Customer's traffic being processed through the Company switch/node; or the effect of any regulatory or legal modifications/change of law.

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3. SERVICE DESCRIPTIONS

3.1 Local Exchange Service: The Company's Local Telephone Service provides a Customer with the ability to connect to the Company's switching network which enables the Customer to:

- (a) place or receive calls to any calling Station in the local calling area, as defined herein;
- (b) access enhanced 911 Emergency Service where available;
- (c) access the interexchange carrier selected by the Customer for interLATA, intraLATA, interstate or international calling;
- (d) access Operator Services;
- (e) access Directory Assistance;
- (f) place or receive calls to 800 telephone numbers;
- (g) access Telecommunications Relay Service.

The Company's service will automatically block originating calls to other telephone company's caller-paid information services (e.g. 900, 976) at no charge. Calls to those numbers and other numbers used for caller-paid information services will be unblocked on a per directory number basis only.

3.1.1 Local Calling Areas: Company will offer Services statewide. The specific calling areas serviced by Company can be found in the tariff on file by the incumbent local exchange provider. The NXX's associated with each particular exchange or zone may be found in the telephone directory published by the incumbent local exchange provider in the Customer's exchange area.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.1 Local Exchange Service (Cont'd)

3.1.2 Basic Business Lines

Basic Business Lines provide basic access service and supply a single, voice-grade communications channel for single line telephones, key telephone systems, modems and other devices needing access to the public switched telephone network (PSTN). Basic Business Line Customers will be charged a Non- Recurring Charge (NRC), a Monthly Recurring Charge (MRC) and usage charges as specified below as well as all applicable Federal, State and Local Taxes and Surcharges.

(a) Basic Business Lines include the following standard attributes at no cost:

Touchtone
One White Pages Directory Listing
911 Access
One Yellow Pages Directory Listing

Blocking Restrictions- Basic Business Lines come standard with all Caller Paid Service, 500 and 900 area codes blocked.

(b) Basic Business Line Optional Features: Basic Business Line Customers may order the following Optional Features listed below at the Rates specified below.

Call Forward Busy
Call Forward No Answer
Hunting
Call Forward Variable
Call Waiting with Cancel Call Waiting
Speed Calling 8
Three Way Calling
Caller ID Number Only
Caller ID Name & Number
Voicemail

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3. SERVICE DESCRIPTIONS (Cont'd)

3.1 Local Exchange Service (Cont'd)

3.1.2 Basic Business Lines (Cont'd)

(c) Basic Business Line Rates and Charges: Basic Business Line Customers will be charged applicable Non-Recurring, Monthly Recurring and Usage Charges as specified below.

(1) Monthly Recurring Charges

Basic Local Line -	Line Charge
One Year Term	\$33.00
Two Year Term	ICB
Three Year Term	ICB

Optional Features:

Call Forward Busy	\$ 3.50
Call Forward No Answer	\$ 3.50
Hunting	\$16.50
Call Forward Variable	\$ 5.50
Call Waiting with Cancel Call Waiting	\$ 5.50
Speed Calling 8	\$ 5.00
Three Way Calling	\$ 6.00
Caller ID Number Only	\$ 11.00
Caller ID Name & Number	\$ 11.00
Voicemail	\$ 12.95

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3. SERVICE DESCRIPTIONS (Cont'd)

3.1 Local Exchange Service (Cont'd)

3.1.2 Basic Business Lines (Cont'd)

(2) Non-Recurring Charges

Installation Charge (Per Line)

First Line \$85.00

Additional Line(s) \$85.00

Line Restoral Charge \$TBD

(Applies for line restoral after temporary interruption of service initiated by the Company. If service is temporarily interrupted and payment is not received within 10 days following the interruption, the Company reserves the right to discontinue service. If service is discontinued and subsequently re-established, charges apply as for a new installation of service.)

Suspension of Service Restoral Charge \$TBD

(Applies for line restoral after Customer initiated suspension)

Service Order Charge \$25.00

NOTE: Non-recurring account change charges will not apply during the initial 30 day period following completion of a service order.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.2 Directory Assistance

Directory Assistance service provides a Customer with requested telephone numbers and/or addresses within the Customer's local calling area. Customers can reach a Directory Assistance Operator by dialing 411 or 555-1212. The Directory Assistance Operator will furnish up to three items per call or will let the Customer know if the requested information cannot be found. Customers will be charged for calls placed to Directory Assistance even when the requested information cannot be found.

3.2.1 Each call to Directory Assistance will be charged as follows:

Per Call	\$0.75
----------	--------

3.2.2 Call Completion Feature: Customers using Company's Directory Assistance Service will have the option of completing calls through Company's Call Completion feature. At the Customer's request, the Directory Assistance Operator will connect the Customer to the requested telephone number. In addition to the per call charge for Directory Assistance listed above, Customers will be charged for duration of the completed call as follows:

- (a) Customers placing the call from a telephone line that is subscribed to Company local service will be charged according to Customer's current Company rate plan.

Other than the Directory Assistance per call charge and the applicable usage charges for the completed call, there is no additional charge for using this feature.

3.2.3 A credit will be given for calls to Directory Assistance as follows:

- (a) The Customer experiences poor transmission or is cut-off during the call; or
- (b) The Customer is given an incorrect telephone number.

To obtain such a credit, the Customer must notify its Customer Service representative within 48 hours of placing the call to Directory Assistance.

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3. SERVICE DESCRIPTIONS (Cont'd)3.3 Operator Assistance

Operator Assistance: A Customer may obtain the assistance of a local operator to complete local exchange telephone calls in the following manner. In addition to the rates specified in Section 3.1, surcharges as specified in Section 3.3.1 will apply:

Third Number Billing: Provides the Customer with the capability to charge a local call to a third number which is different from the called or calling party. The party answering at the third number has the option to refuse acceptance of the charges in advance or when queried by the operator.

Collect Calls: Provides the Customer with the capability to charge a call to the called party. On the operator announcement of a collect call, the called party has the option to refuse acceptance of charges in advance or when queried by the operator.

Calling Cards: Provides the Customer with the capability to place a call using a calling card of an Interchange Carrier with or without the assistance of an operator.

Person to Person: Calls completed with the assistance of an operator to a particular Station and person specified by the caller. The call may be billed to the called party.

Station to Station: Calls completed with the assistance of an operator to a particular Station. The call may be billed to the called party.

3.3.1 Operator Assisted Surcharges: The following surcharges will be applied on a per call basis.

	Live Operator
Calling Card or Credit Card	\$0.75
Third Number Billing	\$1.83
Collect Calling	\$1.83
Person to Person	\$3.13
Station to Station	\$1.83
Inmate Calls from Correctional Institutions	\$0.63
Operator Dials Terminating Number	\$0.80

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3. SERVICE DESCRIPTIONS (Cont'd)

3.3 Operator Assistance (Cont'd)

3.3.2 Usage Rates for Operator Completed Calls: The following rate applies on a per minute basis to calls completed by an operator. The per minute charge begins once the operator has connected the call. Calls are billed in six (6) second increments with an initial billing period of eighteen (18) seconds. The duration of each call for bill purposes will be rounded off to the nearest highest increment. Fractional cents will be rounded to the nearest cent using natural rounding, \$0.10 per minute of use.

3.3.3 Busy Line Verification and Interrupt Service: Busy Line Verification and Interrupt Service, which is furnished where and to the extent that facilities permit, provides the Customer with the following options:

- (a) Busy Line Verification: Upon request of the calling party, the Company will determine if the line is clear or in use and report to the calling party.
- (b) Busy Line Verification with Interrupt: The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.
- (c) Rates: Rates for Busy Line Verification and Interrupt Service, as specified below, will apply under the following circumstances:

The operator verifies that the line is busy with a call in progress.

The operator verifies that the line is available for incoming calls.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.3 Operator Assistance (Cont'd)

3.3.3 Busy Line Verification and Interrupt Service (Cont'd)

(c) Rates (Cont'd)

The operator verifies that the called number is busy with a call in progress and the Customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.

Per Request

Busy Line Verification \$2.00

Busy Line Interrupt \$4.00

3.4 Directory Listings: The Company shall arrange for the listing of the Customer's main billing telephone number in the directory(ies) published by the dominant Local Exchange Carrier in the service area at no additional charge. At a Customer's option, the Company will arrange for other types of listings and additional listings and will pass onto the Customer the charges, if any, for such listings that the dominant Local Exchange Carrier charges Company. Listings will be non-published at the specific request of the Customer.

3.4.1 The Company reserves the right to limit the length of any listing in the directory by the use of abbreviations when, in its judgment, the clearness of the listing or the identification of the Customer is not impaired thereby. When more than one line is required to properly list the Customer, no additional charge is made.

3.4.2 The Company may refuse a listing which is known not to constitute a legally authorized or adopted name, contains obscenities in the name, or any listing which, in the opinion of the Company, is likely to mislead or deceive calling persons as to the identity of the listed party, or is a contrived name used for advertising purposes or to secure a preferential position in the directory or is more elaborate than is reasonably necessary to identify the listed party. The Company, upon notification to the Customer, will withdraw any listing which is found to be in violation of its rules with respect thereto.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.4 Directory Listings (Cont'd)

- 3.4.3 Each listing must be designated Government, Business, or Residence to be placed in the appropriate section of the directory. In order to aid the user of the directory, and to avoid misleading or deceiving the calling party as to the identity of the listed party, only business listings may be placed in the Business Section and only residential listings in the Residential Section. The Company, upon notification to the Customer, will withdraw any listing which is found to be in violation of its rules with respect thereto.
- 3.4.4 In order for a listing to appear in an upcoming directory, the Customer must furnish the listing to the Company in time to meet the directory publishing schedule.
- 3.4.5 Directory listings are provided in connection with each Customer service as specified herein.
- (a) Primary Listing: A primary listing contains the name of the Customer, or the name under which a business is regularly conducted, as well as the address and telephone number of the Customer. This listing is provided at no additional charge.
- (b) Additional Listings: In connection with local exchange service, additional listings are available only in the name of Authorized Users of the Customer's service, as defined herein. Rates for additional listings are specified in Section 3.4.5 (h) and 3.4.5 (i).
- (c) Non-Published Listings: Listings that are not printed in directories or available from Directory Assistance.

A Non-Published Telephone Service will be furnished, at the Customer's request providing the omission or deletion of the Customer's telephone listing from the telephone directory and, in addition, the Customer's telephone listing will be omitted or deleted from the directory assistance records, subject to the provisions set forth in Section 2.1.4. Rates for Non-Published Listings are specified in Sections 3.4.5 (h) and 3.4.5 (i).

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3. SERVICE DESCRIPTIONS (Cont'd)

3.4 Directory Listings (Cont'd)

- (d) Non-Listed Numbers: A Non-Listed number will be furnished at the Customer's request, providing for the omission or deletion of the Customer's listing from the telephone directory. Such listings will be carried in the Company's directory assistance and other records will be given to any calling party. Rates for Non-Listed Numbers are specified in Sections 3.4.5(h) and 3.4.5(i).
- (e) Foreign Listings: Where available, a listing in a phone directory which is not in the Customer's immediate calling area. The Customer will be charged the rates specified in the tariff published by the specific exchange carrier providing the Foreign Listings.
- (b) Alternate Call Listings: Where available, a listing which references a telephone number which is not the primary listing for the Customer. The Customer must provide written verification that the alternate telephone number is authorized to accept calls.
- (g) Reference Listing: A listing including additional telephone numbers of the same or another Customer to be called in the event there is not an answer from the Customer's telephone. Charges for reference listings are specified in Section 3.4.5 (h) and 3.4.5 (i).
- (h) Non-Recurring Charges: Non-Recurring charges associated with Directory Listings are as follows:

	<u>Per Listing or Per Number Charge</u>
Primary Listing	\$ TBD
Additional Listing	\$ TBD
Reference Listing	\$ TBD
Non-Listed Number	\$ TBD
Non-Published Number	\$ TBD

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3. SERVICE DESCRIPTIONS (Cont'd)3.4 Directory Listings (Cont'd)

- (i) Recurring Charges: Monthly Recurring Charges associated with Directory Listings are as follows:

	<u>Per Listing or Per Number Charge</u>
Primary Listing	N/C
Additional Listing	\$2.00
Reference Listing	\$2.05
Non-Listed Number	\$ TBD
Non-Published Number	\$ TBD

- 3.5 Telecommunications Relay Service: Telecommunications Relay Service enables deaf, hard-of-hearing or speech-impaired persons who use a text telephone or similar devices to communicate freely with the hearing population for using the text telephone and vice versa. The Company does not impose any charge to end users for access to Telecommunications Relay Service. However, persons using this Service are liable for applicable per call/increment charges.

- 3.6 Presubscription: Provides Customers with the ability to have message toll or long distance calls routed directly to their carrier of choice without the dialing of any additional digits. Customers may select separate carriers for intraLATA and interLATA calls

Rates and Charges

	Rate
(a) The charge for a change in intraLATA Toll Presubscription	\$ TBD per line
(b) The charge for an unauthorized Business service change in intraLATA Toll Presubscription	\$ TBD per line
(c) The charge for a Business PIC Switchback change in intraLATA Toll Presubscription	\$ TBD per line

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3. SERVICE DESCRIPTIONS (Cont'd)

3.7 Miscellaneous Service and Equipment

3.7.1 Caller ID

This service utilizes specific network capabilities to transmit and display the number associated with an incoming call to the called party's access line. The number of the incoming call is transmitted during the silent interval between the first and second ring of the called party's line. Caller ID subscribers must provide, and connect, their own compatible premises equipment in order to process and display the number transmission. The company will forward all telephone numbers where technically feasible.

If a calling party has activated blocking, the number will not be transmitted to the display equipment of a Caller ID subscriber. Instead, the Caller ID privacy indicator notifies the Caller ID subscriber that the calling party chose to block number delivery.

3.7.2 Caller ID Blocking

Caller ID Blocking allows the caller to prevent the delivery of his/her calling data to a Caller ID subscriber on a per call basis (Caller ID Blocking - Per Call) or per line basis (Caller ID Blocking - Per Line).

(a) Caller ID Blocking - Per Call

This service will block the delivery of the caller's data to a Caller ID subscriber for one call only and may be activated from all single party access lines by dialing *67 (1167 from a rotary phone) prior to placing the call. Per the FCC Caller ID order, Caller ID Blocking-Per Call is provided to all customers at no charge.

Per FCC Docket 91-281, per call blocking will be provided on calls originating from public, semi-public or other pay stations used by the general public and party lines.

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3.0 SERVICE DESCRIPTIONS (Cont'd)

3.7 Miscellaneous Service and Equipment (Cont'd)

3.7.2 Caller ID Blocking (Cont'd)

(b) Caller ID Blocking - Per Line

This service will automatically block the delivery of the caller's data to a Caller ID subscriber on all calls and will be made available or offered, at no charge for victims of domestic violence, domestic violence programs, social welfare agencies, health and counseling centers, public service hotlines, law enforcement agencies and staff thereof. In addition, all customers call request per line blocking at no charge. Per line blocking call be deactivated by dialing *67 (1167 from a rotary phone) prior to placing the call.

3.7.3 Special Conditions for Caller ID

- a) An originating caller's data may not be displayed to the called party under the following conditions:
 - 1) The caller's data will not be displayed if the called party is off-hook. The called party must be on-hook to receive the caller's data. If the customer subscriber to both Call Waiting and Caller ID, and is on an existing call, the second incoming call information will not be displayed. Instead, the called party will receive the usual Call Waiting tone.
 - 2) The caller's data will not be displayed if the called party answers the incoming call during the first ring interval.
 - 3) Identification of names, specific stations or extensions served by a PBX or Key System is not possible. The main directory number or name and number (if available) of the PBX or Key System will be displayed.
 - 4) Caller ID Service cannot be provided if the calling party is from a multi-party line. The called party will receive an "Unavailable" display.

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3.0 SERVICE DESCRIPTIONS (Cont'd)

3.7 Miscellaneous Service and Equipment (Cont'd)

3.7.3 Special Conditions for Caller ID (Cont'd)

- 5) The caller's data will be unavailable if it is from another office that is not linked by appropriate facilities with the called party's office.
- 6) The calling party has activated blocking.
- 7) Caller ID services do not display a directory number or name and number (if available) for operator assisted calls, calls marked private by the originator or calls originating from pay and party line stations.
- b) The following special conditions apply to Caller ID services based on the FCC Caller ID Order effective 12/1/95:
 - 1) If a customer dials a "1-800" or other Automatic Number Identification (ANI) Service number, the telephone number that they are calling from will be revealed to the called party through ANI technology. Even if the customer has per line blocking or has activated per call blocking, the 800 number party has the right to obtain this information through ANI.
 - 2) ANI information may not be reused or resold for other purposes without a caller's consent, even where the called party has paid for the call.
 - 3) Caller ID services are available on all long distance calls where technically feasible.
 - 4) All calling data will be displayed to E911 through ANI technology, even if the customer has per line blocking or has activated per call blocking.
 - 5) All calling data will be passed, even for customer who do not subscribe to Caller ID.

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3.0 SERVICE DESCRIPTIONS (Cont'd)

3.7 Miscellaneous Service and Equipment (Cont'd)

3.7.3 Special Conditions for Caller ID

- 6) Per Call Blocking will be available to all customers. (The FCC Order overrules all state PUC/PSC decisions on Per Call Blocking.)

3.7.4 Call Trace

This service enables the customer to initiate a trace of the last incoming call completed by dialing an activation code (*57) immediately after terminating the call, thus enabling the Company's equipment to record the incoming call detail (not the conversation). Call trace information will only be given to law enforcement agencies and not to the subscriber. Incoming call detail includes: The calling number, the time the trace was activated, and in some locations, the time the traced call was received. The customer is required to contact the telephone company business office during normal business hours, which will refer the customer to appropriate law enforcement agencies, or contact the law enforcement agency directly. Call trace detail will be retained by the company and made available to the local law enforcement for ten business days after the trace has been initiated. Only calls from locations with compatible signaling services are traceable using Call Trace. Call Trace is available on a usage sensitive basis only.

Rate per incident

\$ TBD

3.7.5 Intercept and Number Referral Service

(A) Intercept

Is an optional service employed after telephone service has been disconnected, whereby an automated system repeats the called number and provides the status of the telephone service. Intercept Service is available for published numbers free of charge for the first 90 days of use. Intercept Service for published numbers in place longer than 90 days will be charged as outlined below. Intercept Service for unpublished numbers will be charged as outlined below from the start of the Number Referral Service.

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3. SERVICE DESCRIPTIONS (Cont'd)3.7.5 Intercept and Number Referral Service (Cont'd)

(B) Number Referral Service

Is an optional service employed after telephone service has been disconnected, whereby an automated system repeats the called number and provides callers with the new number. Number Referral Service is available for published numbers free of charge for the first 90 days of use. Number Referral Service for published numbers in place longer than 90 days will be charged as outlined below. Number Referral Service for unpublished numbers will be charged as outlined below from the start of the Number Referral Service.

Duration	Non-recurring Charge
1 month:	\$ TBD
2 months:	\$ TBD
3 months:	\$ TBD
6 months:	\$ TBD
9 months:	\$ TBD
12 months:	\$ TBD

3.8 Service Calls

When a customer reports trouble to the Company for clearance and no trouble is found in the Company's facilities, the Customer may be responsible for payment of a charge calculated from the time Company's personnel are dispatched to the Customer Premise until the work is completed.

Service Call Rates:Normal Business Hours (Monday – Friday 8:00 am – 5:00 pm)

\$ TBD Per site visit, and

\$ TBD Per hour, billed in fifteen (15) minute increments, per technician, plus materials

After Normal Business Hours:

\$ TBD Per site visit, and

\$ TBD Per hour, billed in fifteen (15) minute increments, per technician, plus materials

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4. INDIVIDUAL CASE BASIS (ICB) ARRANGEMENTS

Arrangements will be developed on a case-by-case basis in response to a bonafide request from a Customer or prospective Customer to develop a competitive bid for a service offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such service in this tariff. ICB rates will be offered to the Customer in writing and on a non-discriminatory basis. ICB rates, service descriptions and length of such agreement will be filed with the Commission when required.

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5. PROMOTIONAL OFFERINGS

The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offerings are made. Promotional offerings will only be available where facilities and billing capabilities permit.

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EXHIBIT E

FINANCIAL DOCUMENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

Commission file number: 0-30900

XO Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

54-1983517
(I.R.S. Employer
Identification No.)

11111 Sunset Hills Road, Reston, VA
(Address of principal executive offices)

20190
(Zip Code)

(703) 547-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

**APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. YES ☒ NO ☐

As of May 12, 2003, the number of shares of common stock of XO Communications, Inc. issued and outstanding was 95,016,251.

XO Communications, Inc. and Subsidiaries
Index to Form 10-Q

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Amounts in thousands, except for share and per share data)

	Reorganized XO March 31, 2003 (Unaudited)	Reorganized XO January 1, 2003 (Unaudited)	Predecessor XO December 31, 2002
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 288,764	\$ 314,038	\$ 314,038
Marketable securities	249,616	246,945	246,945
Accounts receivable, net of allowance for doubtful accounts of \$38,965 at March 31, 2003; \$37,030, at January 1, 2003 and at December 31, 2002, respectively	105,549	116,541	116,541
Other current assets	28,564	35,192	83,480
Total current assets.....	672,493	712,716	761,004
Property and equipment, net	476,509	476,588	2,780,589
Fixed wireless licenses and other intangibles, net	129,137	135,678	984,614
Other assets, net	45,804	23,108	59,289
Total assets.....	<u>\$ 1,323,943</u>	<u>\$ 1,348,090</u>	<u>\$ 4,585,496</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable.....	\$ 56,304	\$ 67,268	\$ 63,729
Accrued liabilities	232,872	235,192	266,102
Current liabilities subject to compromise.....	—	—	5,497,207
Total current liabilities	289,176	302,460	5,827,038
Long-term liabilities not subject to compromise	—	—	75,242
Long-term liabilities subject to compromise	—	—	7,182
Long-term debt.....	507,868	500,000	—
Other long-term liabilities	72,585	70,630	—
Total liabilities	869,629	873,090	5,909,462
Predecessor XO redeemable preferred stock: par value \$0.01 per share, 25,000,000 shares authorized: 7,856,918 shares issued and outstanding aggregate liquidation preference of \$1,693,293, subject to compromise	—	—	1,708,316
Commitments and contingencies			
Stockholders' equity (deficit):			
Reorganized XO preferred stock: par value \$0.01 per share, 200,000,000 shares authorized: none issued.....	—	—	—
Predecessor XO common stock, par value \$0.02 per share, Class A, 1,000,000,000 shares authorized: 331,033,219 shares issued and outstanding, Class B, 120,000,000 shares authorized: 104,423,158 shares issued and outstanding.....	—	—	4,628,139
Reorganized XO common stock, par value \$0.01 per share, 1,000,000,000 shares authorized: 95,000,001 shares issued and outstanding on March 31, 2003	475,000	475,000	—
Deferred compensation	—	—	(8,500)
Accumulated other comprehensive income (loss)	(198)	—	2,512
Accumulated deficit	(20,488)	—	(7,654,433)
Total stockholders' equity (deficit)	454,314	475,000	(3,032,282)
Total liabilities and stockholders' equity (deficit).....	<u>\$ 1,323,943</u>	<u>\$ 1,348,090</u>	<u>\$ 4,585,496</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Amounts in thousands, except for share and per share data)
(Unaudited)

	Reorganized XO Three months ended March 31, 2003	Predecessor XO January 1, 2003	Three months ended March 31, 2002
Revenue	\$ 286,093	\$ —	\$ 333,405
Costs and expenses:			
Cost of service	107,506	—	140,367
Selling, operating, and general	166,235	—	205,250
Stock-based compensation.....	—	—	9,095
Depreciation and amortization.....	26,367	—	161,356
Total costs and expenses.....	300,108	—	516,068
Income (loss) from operations.....	(14,015)	—	(182,663)
Interest income.....	3,210	—	5,540
Interest expense, net.....	(9,683)	—	(120,726)
Other income (loss), net.....	—	—	(203)
Reorganization gain (expense), net.....	—	3,032,282	(976)
Net income (loss) before cumulative effect of accounting change	(20,488)	3,032,282	(299,028)
Cumulative effect of accounting change	—	—	(1,876,626)
Net income (loss).....	(20,488)	3,032,282	(2,175,654)
Preferred stock dividends and accretion of preferred stock redemption obligation, net	—	—	(22,826)
Net income (loss) applicable to common shares	<u>\$ (20,488)</u>	<u>\$ 3,032,282</u>	<u>\$ (2,198,480)</u>
Net income (loss) per common share, basic and diluted:			
Net income (loss) before cumulative effect of accounting change	\$ (0.22)	\$ 6.86	\$ (0.68)
Cumulative effect of accounting change	—	—	(4.24)
Net income (loss).....	(0.22)	6.86	(4.92)
Preferred stock dividends and accretion of preferred stock redemption obligation, net	—	—	(0.05)
Net income (loss) per common share, basic and diluted.....	<u>\$ (0.22)</u>	<u>\$ 6.86</u>	<u>\$ (4.97)</u>
Weighted average shares, basic and diluted.....	<u>95,000,001</u>	<u>441,964,342</u>	<u>442,205,796</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Reorganized XO Three months ended March 31, 2003	Predecessor XO January 1, 2003	Three months ended March 31, 2002
OPERATING ACTIVITIES:			
Net income (loss)	\$ (20,488)	\$ 3,032,282	\$ (2,175,654)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Non-cash reorganization items	—	(3,032,282)	—
Depreciation and amortization	26,367	—	161,356
Stock-based compensation	—	—	9,095
Cumulative effect of accounting change	—	—	1,876,626
Accretion of interest	9,897	—	36,045
Changes in assets and liabilities:			
Accounts receivable	15,176	—	39,224
Other assets	982	—	(17,164)
Accounts payable	(4,586)	—	23,671
Accrued liabilities	(3,158)	—	(607)
Net cash provided by (used in) operating activities	24,190	—	(47,408)
INVESTING ACTIVITIES:			
Purchases of property and equipment	(21,377)	—	(136,454)
Proceeds from sales of property and equipment	—	—	24,339
Sales of marketable securities	30,825	—	278,293
Purchases of marketable securities	(33,693)	—	(8,224)
Net releases (purchases) of escrowed/pledged securities	(25,000)	—	1,960
Net cash provided by (used in) investing activities	(49,245)	—	159,914
FINANCING ACTIVITIES:			
Repayments of capital leases and other obligations	(219)	—	(4,848)
Net cash used in financing activities	(219)	—	(4,848)
Effect of exchange rate changes on cash	—	—	(1,256)
Net increase (decrease) in cash and cash equivalents	(25,274)	—	106,402
Cash and cash equivalents, beginning of period	314,038	314,038	246,189
Cash and cash equivalents, end of period	<u>\$ 288,764</u>	<u>\$ 314,038</u>	<u>\$ 352,591</u>
SUPPLEMENTAL DATA:			
Non-cash financing and investing activities:			
Accrued redeemable preferred stock dividends, payable in shares of redeemable preferred stock	\$ —	\$ —	\$ 12,357
Cash paid for interest	\$ 213	\$ —	\$ 19,192

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

As further discussed in the annual report on Form 10-K of XO Communications, Inc. ("XO Parent") and its subsidiaries (together with its predecessors, collectively referred to as the "Company" or "XO") for the year ended December 31, 2002 as filed with the Securities and Exchange Commission (the "Commission") on March 21, 2003 (the "2002 Annual Report"), XO Parent filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), on June 17, 2002 (the "Petition Date"). XO Parent emerged from the Bankruptcy Court proceedings pursuant to the terms of its third amended plan of reorganization (the "Plan of Reorganization") on January 16, 2003 (the "Effective Date"). As discussed in note 2, the Company implemented the fresh start accounting provisions ("fresh start") of the American Institute of Certified Public Accountants Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," ("SOP 90-7") as of January 1, 2003. Under fresh start, the fair value of the reorganized Company was allocated among its assets and liabilities, and its accumulated deficit as of January 1, 2003 was eliminated. As discussed in note 2, the implementation of fresh start has resulted in a substantial reduction in the carrying value of the Company's long-lived assets, including property and equipment, fixed wireless licenses, other intangible assets and other noncurrent assets. As a result, the predecessor financial statements are not comparable to financial statements of the reorganized Company.

The condensed consolidated financial statements of XO are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States for interim financial statements and the Commission's instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. As discussed further in note 2, the condensed consolidated statements of operations and cash flows for Reorganized XO for the three months ended March 31, 2003, show the operations of the reorganized Company from and including January 1, 2003, the date that the reorganized Company applied fresh start, through March 31, 2003. Predecessor XO's January 1, 2003 statements of operations and cash flows reflect only the effect of the reorganization and application of fresh start as of such date and do not reflect any operating results. Operating results for the three month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for any subsequent quarterly period, or for the year ending December 31, 2003.

2. REORGANIZATION AND FRESH START ACCOUNTING

On the Effective Date, XO Parent consummated the Plan of Reorganization and it emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet. As described in more detail in the 2002 Annual Report, the consummation of the Plan of Reorganization resulted in the following changes in XO Parent's capital structure:

- The conversion of \$1.0 billion of loans under its pre-petition secured credit facility into \$500.0 million of outstanding principal amount under a new credit agreement (the "New Credit Agreement");
- The extinguishment of all amounts due under its pre-petition unsecured senior and subordinated notes and certain general unsecured obligations;
- The cancellation of all outstanding shares and interests in its pre-petition preferred stock and pre-petition common stock; and
- The issuance of approximately 95.0 million shares of common stock of the reorganized Company ("New Common Stock") and warrants to purchase up to an additional 23.75 million shares of New Common Stock of the reorganized Company.

The Company adopted fresh start as of January 1, 2003. Although the Effective Date of the Plan of Reorganization was January 16, 2003, due to the immateriality of the results of operations for the period between

January 1, 2003 and the Effective Date, the Company has accounted for the consummation of the Plan of Reorganization as if it had occurred on January 1, 2003 and implemented fresh start as of that date. Fresh start required that the Company adjust the historical cost of its assets and liabilities to their fair values as determined by the reorganization value of the Company and that the reorganization value be allocated among the reorganized entity's net assets in conformity with procedures specified by Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," ("SFAS No. 141"). The Company engaged an independent appraiser to assist in the allocation of the reorganization value to the reorganized Company's assets and liabilities by determining the fair market value of its property and equipment, intangible assets and certain obligations related to its facility leases. The accompanying January 1, 2003 statement of operations and balance sheet show the impact of this valuation, but do not reflect any of the Company's operating results as attributable to that date. A reconciliation of the adjustments recorded in connection with the reorganization and the adoption of fresh start is presented below (in thousands):

	Predecessor XO December 31, 2002 (Audited)	Reorganization	Fresh Start Adjustments (d)	Reorganized XO January 1, 2003 (Unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 314,038	\$ —	\$ —	\$ 314,038
Marketable securities	246,945	—	—	246,945
Accounts receivable, net	116,541	—	—	116,541
Other current assets	83,480	—	(48,288)	35,192
Total current assets.....	761,004	—	(48,288)	712,716
Property and equipment, net	2,780,589	—	(2,304,001)	476,588
Fixed wireless licenses and other intangibles, net	984,614	—	(848,936)	135,678
Other assets, net	59,289	—	(36,181)	23,108
Total assets.....	<u>\$ 4,585,496</u>	<u>\$ —</u>	<u>\$ (3,237,406)</u>	<u>\$ 1,348,090</u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY				
Current liabilities:				
Accounts payable	\$ 63,729	\$ —	\$ 3,539	\$ 67,268
Accrued liabilities	266,102	—	(30,910)	235,192
Current liabilities subject to compromise	5,497,207	(5,466,667)	(a) (30,540)	—
Total current liabilities	5,827,038	(5,466,667)	(57,911)	302,460
Long-term debt	—	500,000	(b) —	500,000
Other long-term liabilities	75,242	—	(4,612)	70,630
Long-term liabilities subject to compromise	7,182	—	(7,182)	—
Total liabilities	5,909,462	(4,966,667)	(69,705)	873,090
Predecessor XO redeemable preferred stock – subject to compromise	1,708,316	(1,708,316)	(a) —	—
Stockholders' (deficit) equity:				
Predecessor XO common stock	4,628,139	—	(4,628,139)	—
Reorganized XO common stock and warrants	—	475,000	(c) —	475,000
Deferred compensation	(8,500)	—	8,500	—
Accumulated other comprehensive income	2,512	—	(2,512)	—
Accumulated deficit	(7,654,433)	6,199,983	1,454,450	—
Total stockholders' (deficit) equity	(3,032,282)	6,674,983	(3,167,701)	475,000
Total liabilities and stockholders' (deficit) equity.....	<u>\$ 4,585,496</u>	<u>\$ —</u>	<u>\$ (3,237,406)</u>	<u>\$ 1,348,090</u>

(a) To record the discharge of pre-petition indebtedness, including a \$1.0 billion credit facility, \$4.2 billion of senior and convertible subordinated notes, \$245.2 million of accrued interest, the elimination of \$1.7 billion of pre-petition redeemable preferred stock and \$50.6 million of accrued dividends all in accordance with the Plan of Reorganization.

(b) To record the outstanding principal under the New Credit Agreement, in accordance with the Plan of Reorganization.

(c) To record the issuance of New Common Stock and warrants in accordance with the Plan of Reorganization.

(d) To adjust the carrying value of assets, liabilities and stockholders' equity to fair value, in accordance with fresh start.

Reorganization gain on January 1, 2003 consisted of the following (dollars in thousands):

Net gain resulting from reorganization of debt, preferred stock and equity.....	\$ 6,199,983
Net loss resulting from fresh start fair value adjustments to assets and liabilities	(3,167,701)
Total reorganization gain, net.....	<u>\$ 3,032,282</u>

As of December 31, 2002, the Company had incurred \$91.1 million in net reorganization expenses which included the write-off of deferred financing fees associated with the issuance of XO's pre-petition debt and professional fees incurred in conjunction with the Company's recapitalization.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Review of Significant Accounting Policies

As discussed in note 2, the Company adopted fresh start as of January 1, 2003, creating, in substance, per SOP 90-7, a new reporting entity. The reorganized Company has adopted the policy of expensing customer installation costs and internal labor directly associated with network construction in the period in which the costs are incurred. The predecessor Company capitalized and amortized these costs. In accordance with SOP 90-7, the reorganized Company was also required to implement newly issued accounting pronouncements that would require adoption within twelve months of applying fresh start.

Principles of Consolidation

The Company's condensed consolidated financial statements include all of the assets, liabilities and results of operations of subsidiaries in which the Company has a controlling interest. All inter-company accounts and transactions among consolidated entities have been eliminated.

Preparation of Condensed Consolidated Financial Statements

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management periodically assesses the accuracy of these estimates and assumptions. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents consist primarily of money market accounts that are available on demand. The carrying amount of these instruments approximates fair value due to their short maturities.

Marketable Securities

Substantially all of the Company's marketable securities currently consist of U.S. government agency issued and other high-grade and highly-liquid securities with original maturities beyond three months. The Company classifies investments in debt and equity securities as available-for-sale and records such investments at fair value. The fair values are based on quoted market prices. Unrealized gains and losses on available-for-sale marketable securities are reported as a separate component of comprehensive income. Realized gains and losses for available-for-sale securities are recognized in interest income.

Long-Lived Assets

Long-lived assets includes property and equipment, fixed wireless licenses, and intangible assets to be held and used. Long-lived assets, excluding intangible assets with indefinite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"). The criteria for determining impairment for such long-lived assets to be held and used is determined by comparing the carrying value of these long-lived assets to management's best estimate of future undiscounted cash flows expected to result

from the use of the assets. The Company believes that no impairment existed under SFAS No. 144 as of March 31, 2003. In the event that there are changes in the planned use of the Company's long-lived assets or its expected future undiscounted cash flows are reduced significantly, the Company's assessment of its ability to recover the carrying value of these assets under SFAS No. 144 could change.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if an event indicates that the asset might be impaired. In accordance with SFAS No. 142, the fair value of these intangible assets is determined based on a discounted cash flow methodology.

Property and Equipment

Property and equipment acquired prior to December 31, 2002 is stated at its fair value at January 1, 2003, as required by fresh start, net of subsequent depreciation. Additions to property and equipment during 2003 are stated at cost, net of accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets beginning in the month telecommunications networks and acquired bandwidth are substantially complete and available for use and in the month equipment and furniture are acquired. Telecommunications networks and bandwidth include the deployment of fiber optic cable and telecommunications hardware and software for the expressed purpose of delivering telecommunications services. Costs of additions and improvements are capitalized, and repairs and maintenance are charged to expense as incurred. Direct external costs of constructing property and equipment are capitalized including interest costs related to construction. The reorganized Company has adopted the policy of expensing internal labor directly associated with network construction in the period in which the costs are incurred.

Equipment held under capital leases is stated at the lower of the fair value of the asset or the net present value of the minimum lease payments at the inception of the lease. For equipment held under capital leases, depreciation is provided using the straight-line method over the shorter of the estimated useful lives of the assets owned or the related lease term.

The estimated useful lives of property and equipment are as follows:

Telecommunications networks and acquired bandwidth.....	3-20 years
Furniture, fixtures, equipment, and other	5-7 years
Leasehold improvements.....	the shorter of the estimated useful lives or the terms of the leases

These useful lives are determined based on historical usage with consideration given to technological changes and trends in the industry, which could impact the network architecture and asset utilization. Accordingly, in making this assessment, the Company considers its planned use of the assets, the views of experts within the Company and outside sources regarding the impact of technological advances and trends in the industry on the value and useful lives of its network assets.

Fixed Wireless Licenses and Other Intangibles

Fixed wireless licenses acquired prior to December 31, 2002 are stated at their fair values at January 1, 2003, as required by fresh start, net of subsequent amortization. The Company is amortizing these licenses over an estimated useful life of 10 years based on the initial license term granted by the Federal Communications Commission. Amortization commences when commercial service using fixed wireless technology is deployed in the license's geographic area.

Other intangibles of the Company are valued at fair value as required by the provisions of fresh start and SFAS No. 141 and consist of customer relationships, internally developed technology and XO's trade name. The customer relationships and internally developed technology are being amortized using the straight-line method over their estimated useful lives of three years. The XO trade name was determined to have an indefinite life. Accordingly, it is not subject to amortization; however, it is reviewed at least annually for impairment as required under SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142").

Other Assets

Other assets consist primarily of escrow and security deposits, investments in publicly traded companies and pledged securities. The escrow and security deposits and pledged securities are stated at cost, and their fair value approximates their carrying value. Investments in publicly traded companies are stated at fair value.

Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No.109, "Accounting for Income Taxes," ("SFAS No. 109") which requires that deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws. Valuation allowances are used to reduce deferred tax assets to the amount considered likely to be realized.

As of December 31, 2002, the Company had capital loss carryforwards of approximately \$0.5 billion and net operating loss carryforwards of approximately \$4.0 billion. As of the Effective Date, the Company recognized a substantial amount of taxable income from the cancellation of indebtedness. Accordingly, a substantial portion of the Company's \$4.5 billion of capital and net operating loss carryforwards have been eliminated. Other tax attributes, including property bases, have also been reduced. Any surviving capital or net operating loss carryforwards will be subject to limitations imposed under the ownership change rules in the U.S. Internal Revenue Code. As discussed in more detail in note 10, the Company will join with the affiliated group of corporations controlled by Mr. Carl C. Icahn in filing a consolidated federal income tax return for periods following the Effective Date.

Revenue Recognition

Revenues from telecommunication services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collectibility is probable. In circumstances when these criteria are not met, revenue recognition is deferred until resolution occurs.

Service discounts and incentives related to telecommunication services are recorded as a reduction of revenue when granted or ratably over a contract period. Fees billed in connection with customer installations and other upfront charges are deferred and recognized ratably over the estimated customer life.

Revenue from the sale or lease of unlit network capacity is recognized upon consummation of the transaction and the acquirer's acceptance of the capacity in instances when the Company receives upfront cash payments and is contractually obligated to transfer title to the specified capacity at the end of the contract term. If the transaction does not meet these criteria, revenue is recognized ratably over the contract term. There were no sales of unlit capacity during the three months ended March 31, 2003 and March 31, 2002.

The Company establishes allowances for collection of doubtful accounts and other sales credit adjustments. Allowances for sales credits are established through a charge to revenue, while allowances for doubtful accounts are established through a charge to selling, operating and general expense. The Company assesses the adequacy of these reserves monthly by considering general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the credit worthiness of its customers. The Company believes that the established valuation allowances were adequate as of March 31, 2003 and December 31, 2002. If circumstances relating to specific customers change or economic conditions worsen such that the Company's past collection experience and assessment of the economic environment are no longer relevant, XO's estimate of the recoverability of its trade receivables could be further reduced.

Cost of Service

Cost of service includes expenses directly associated with providing telecommunications services to customers, including, among other items, the cost of connecting customers to the Company's networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party providers for interconnect access and transport services. All such costs are expensed as incurred. The Company accrues for the expected costs of services received from third party telecommunications providers during the period the services are rendered. Invoices received from the third party telecommunications providers are often disputed due to billing discrepancies. The Company accrues for all invoiced amounts, even amounts in dispute, as these amounts represent contingent liabilities that are considered probable and measurable. Disputes resolved in the Company's favor may reduce cost of service in the period the dispute is settled and typically reflect costs paid in the prior periods. Because the period of time required to resolve these types of disputes often lapses over several quarters, the benefits associated with the favorable resolution of such disputes normally are realized in periods subsequent to the accrual of the disputed invoice. During the first quarter of 2003, the settlements resulted in approximately \$6.4 million of net benefit to cost of service.

Net Income (Loss) Per Share

Net income (loss) per common share, basic and diluted, is computed by dividing income (loss) applicable to common shares by the weighted average number of common shares outstanding for the period. In periods of net loss, the assumed common share equivalents for options and warrants are anti-dilutive.

Stock-Based Compensation

Effective January 1, 2003, the Company adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," ("SFAS No. 148"). This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123"), to provide for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure provisions of SFAS No. 123 and Accounting Principles Board Opinion ("APB") No. 28, "Interim Financial Reporting," ("APB No. 28") to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements.

As allowed by SFAS No. 148, the Company has chosen to continue to account for compensation cost associated with its employee stock plans in accordance with the intrinsic value method prescribed by APB No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") adopting the disclosure-only provisions of SFAS No. 123. Under this method, no compensation expense is recorded if stock options are granted at an exercise price equal to the fair market value of the Company's stock on the grant date. If the Company had adopted the fair value method of accounting for its stock awards, stock-based compensation would have been determined based on the fair value for all stock awards at the grant date using a Black-Scholes pricing model and the assumptions noted below. The Company's pro forma net loss applicable to common shares, and pro forma net loss per common share, basic and diluted, under the fair value method would have been as follows (dollars in thousands, except per share data):

	Reorganized XO Three months ended March 31, 2003	Predecessor XO Three months ended March 31, 2002
Net loss applicable to common shares, as reported	\$ (20,488)	\$ (2,198,480)
Add: Stock-based employee compensation expense included in net loss applicable to common shares, as reported	—	9,095
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all stock awards, net of related tax effects	(4,038)	(366)
Pro forma net loss	\$ (24,526)	\$ (2,189,751)
Net loss per common share, basic and diluted:		
Net loss per common share, basic and diluted – as reported.....	\$ (0.22)	\$ (4.97)
Net loss per common share, basic and diluted – pro forma	\$ (0.26)	\$ (4.95)
Black Scholes Assumptions:		
Expected volatility.....	75.0%	125.0%
Risk free interest rate.....	2.6%	4.0%
Dividend yield	0.0%	0.0%
Expected life (range in years).....	4.0	4.0
Weighted average fair value per share at grant date	\$2.85	\$0.11

Comprehensive Loss

Comprehensive loss includes the Company's net loss applicable to common shares, as well as net unrealized gains and losses on available-for-sale investments and, for any periods prior to second quarter 2002, foreign currency translation adjustments relating to the Company's European operations, which were disposed of in February 2002.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. Although the Company's trade receivables are geographically dispersed and include customers in many different industries, a portion of the Company's revenue is generated from services provided to other

telecommunications service providers. Several of these companies have filed for protection under Chapter 11 of the Bankruptcy Code. The Company believes that its established valuation and credit allowances are adequate as of March 31, 2003 to cover these risks. The Company's Board of Directors has recently taken actions that would permit the Company to make investments in a broader range of securities, including securities that may increase the Company's credit risk.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosure about Fair Value of Financial Instruments" ("SFAS No. 107"), requires disclosure of fair value information about financial instruments, for which it is practicable to estimate the value. The carrying amounts for the Company's financial instruments classified as current assets and liabilities approximate their fair value due to their short maturities.

Recent Accounting Pronouncements

Effective January 1, 2003, the Company adopted SFAS No. 145, "Rescission of the Financial Accounting Standards Board (the "FASB") Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002" ("SFAS No. 145"), which eliminates the requirement to report material gains or losses from debt extinguishments as an extraordinary item, net of any applicable income tax effect, in an entity's statement of operations. SFAS No. 145 instead requires that a gain or loss recognized from a debt extinguishment be classified as an extraordinary item only when the extinguishment meets the criteria of both "unusual in nature" and "infrequent in occurrence" as prescribed under APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB No. 30"). The adoption of SFAS No. 145 had no effect on the Company's financial position or results of operations for the three months ended March 31, 2003 and 2002. The Company recognized extraordinary gains from debt repurchases in the third and fourth quarters of 2001. In the future, such gains will be reclassified in the respective consolidated statements of operations in accordance with SFAS No. 145.

Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which requires that costs, including severance costs, associated with exit or disposal activities be recorded at their fair value when a liability has been incurred. Under previous guidance, certain exit costs, including severance costs, were accrued upon managements' commitment to an exit plan, which is generally before an actual liability has been incurred. In the first quarter of 2003, the Company did not have any exit or disposal activities after December 31, 2002; however, the provisions of SFAS No. 146 were implemented in conjunction with the Company's implementation of fresh start. Accordingly, as discussed in note 6, the Company's remaining restructuring accrual has been reduced to its net present value.

4. LONG-LIVED ASSETS

As discussed in note 2, the Company applied fresh start on January 1, 2003. Accordingly its property and equipment, fixed wireless licenses and other intangible assets, have been recorded at their then fair values.

As of March 31, 2003, the Company had approximately \$606 million of long-lived assets, including approximately \$94 million of construction-in-progress and certain fixed wireless licenses that are not currently ready for their intended use. Accordingly, these long-lived assets are not being depreciated or amortized.

Property and Equipment

Property and equipment consisted of the following components (dollars in thousands):

	Reorganized XO March 31, 2003	Reorganized XO January 1, 2003	Predecessor XO December 31, 2002
Telecommunications networks and acquired bandwidth.....	\$ 358,368	\$ 359,247	\$ 2,920,819
Furniture, fixtures, equipment, and other	67,301	61,501	656,994
	425,669	420,748	3,577,813
Less accumulated depreciation	(19,890)	—	(1,165,216)
	405,779	420,748	2,412,597
Network construction-in-progress	70,730	55,840	367,992

\$ 476.509 \$ 476.588 | \$ 2.780.589

Depreciation expense related to property and equipment for the reorganized Company's three months ended March 31, 2003 was \$19.9 million and for the predecessor Company's three months ended March 31, 2002 was \$135.1 million.

Fixed Wireless Licenses and Other Intangibles

Fixed wireless licenses and intangible assets consisted of the following components (dollars in thousands):

	Reorganized XO March 31, 2003	Reorganized XO January 1, 2003	Predecessor XO December 31, 2002
Fixed wireless licenses	\$ 59,508	\$ 59,508	\$ 997,942
Customer relationships.....	49,987	49,987	123,745
Internally developed technology	9,521	9,521	—
Acquired technology	—	—	130,515
Other	—	—	35,413
	<u>119,016</u>	<u>119,016</u>	<u>1,287,615</u>
Less accumulated amortization.....	<u>(6,541)</u>	<u>—</u>	<u>(303,001)</u>
	112,475	119,016	984,614
XO Trade name – indefinite life asset	<u>16,662</u>	<u>16,662</u>	<u>—</u>
	<u>\$ 129,137</u>	<u>\$ 135,678</u>	<u>\$ 984,614</u>

Amortization expense related to intangible assets for the reorganized Company's three months ended March 31, 2003 was \$6.5 million and for the predecessor Company's three months ended March 31, 2002 was \$26.3 million.

Goodwill

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") which revises the accounting for purchased goodwill and intangible assets and supersedes APB Opinion No. 17, "Intangible Assets" ("APB No. 17"). As described in greater detail in the 2002 Annual Report, the predecessor Company performed the required impairment tests of goodwill as of January 1, 2002, and as a result, during the first quarter of 2002, the predecessor Company recorded a \$1,876.6 million adjustment as a cumulative effect of accounting change to write-off all of its goodwill.

5. ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," ("SFAS No. 143") which requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which the entity makes the legal or contractual commitment related to the removal obligation if a reasonable estimate of fair value can be made. The Company implemented SFAS No. 143 on January 1, 2003 in conjunction with its implementation of fresh start.

The Company leases Internet data center facilities and various technical sites. Terminating and decommissioning these locations would require the removal of any XO assets and restoration of the leased space to its original condition. Accordingly, upon adoption of SFAS No. 143, the Company recorded an estimated asset retirement obligation of \$12.0 million, which was estimated using the weighted average probability of incurring these costs in the future. The present value of the asset retirement obligation was calculated using a discount rate of 8.0% over a period of 5-20 years, which is representative of the estimated remaining period XO will occupy its data centers and technical facilities.

6. RESTRUCTURING CHARGES AND ASSET WRITE-DOWNS

During the second half of 2001, and the first half of 2002, the Company implemented a plan to restructure certain of its business operations. The restructuring plan included reducing the Company's discretionary spending, capital expenditures and workforce based on its assessment at that time of then current and expected future market conditions and the divestiture of its European operations. As of March 31, 2003, the remaining restructuring accrual was \$37.8 million, which relates primarily to payments due to landlords on exited leased facilities. The restructuring

accrual has decreased from \$125.8 million as of December 31, 2001, primarily due to payments associated with exited leased facilities and adjustments made in conjunction with the Company's implementation of fresh start to appropriately reflect the remaining accrual at its net present value in accordance with the provisions of SFAS No. 146.

7. LONG-TERM DEBT

As discussed in the 2002 Annual Report and in note 2, upon the Effective Date the \$1.0 billion of loans under the pre-petition senior secured credit facility were converted into 90.25 million shares of New Common Stock of the reorganized Company and \$500.0 million of outstanding principal amount of loans under the New Credit Agreement. The maturity date of the outstanding principal under the New Credit Agreement is July 15, 2009 and automatic and permanent quarterly reductions of the principal amount commence on October 15, 2007. The security for the New Credit Agreement consists of all assets of XO Parent, including stock of its direct and indirect subsidiaries, and all assets of virtually all of those subsidiaries. The New Credit Agreement limits additional indebtedness, liens, dividend payments and certain investments and transactions, and contains certain covenants with respect to minimum cash balance and EBITDA (earnings before interest, taxes, depreciation and amortization) requirements and maximum capital expenditures. Under certain circumstances, the New Credit Agreement permits the Company to obtain a senior secured facility of up to \$200.0 million, subject to reduction in an amount equal to any proceeds received from the exercise of rights in a rights offering to be undertaken in accordance with the Plan of Reorganization. At March 31, 2003, long-term debt totaled \$507.9 million including \$500.0 million principal amount outstanding on the New Credit Agreement and accrued interest thereon totaling \$7.9 million. Approximately 85% of the underlying loans of the New Credit Agreement are held by Arnos Corp., an entity controlled by Mr. Carl C. Icahn.

The Company is not required to pay interest accrued on the principal amount under the New Credit Agreement until it meets certain financial ratios; however the Company can elect to begin paying interest in cash prior to the required date. Loans under the New Credit Agreement bear interest, at the Company's option, at an alternate base rate, as defined, or a Eurodollar rate, plus in each case, applicable margins. Once the Company begins to pay accrued interest in cash, the applicable margins are reduced. At March 31, 2003, the annualized weighted average interest rate applicable to outstanding borrowings under the New Credit Agreement was 7.66%.

Also upon the Effective Date, all of XO Parent's pre-petition unsecured senior notes and pre-petition general unsecured claims were cancelled in exchange for (i) 4,750,000 shares of New Common Stock of the reorganized Company, (ii) warrants to purchase shares up to an additional 23,750,000 shares of New Common Stock of the reorganized Company (iii) rights to purchase shares of New Common Stock in a rights offering to be undertaken in accordance with the Plan of Reorganization and (iv) a portion of the cash consideration received by XO Parent in connection with the settlement and termination of the proposed investment transaction that was the basis for the first restructuring alternative contemplated by the Plan of Reorganization, discussed further in note 8. Holders of pre-petition subordinated notes of XO Parent had their securities cancelled, and received a cash payment under certain terms as defined by the Plan of Reorganization and are entitled to participate in a rights offering to be undertaken in accordance with the Plan of Reorganization.

8. STOCKHOLDERS' EQUITY

Pursuant to the Company's Certificate of Incorporation that was adopted in connection with the Plan of Reorganization, the Company has the authority to issue 1,000.0 million shares of New Common Stock and 200.0 million shares of new preferred stock. At March 31, 2003, approximately 95.0 million shares of New Common Stock had been issued, more than 80% of which were owned and controlled by Cardiff Holding LLC ("Cardiff"), a Delaware limited liability company controlled by Mr. Icahn.

As a result of the cancellation of the pre-petition senior notes and pre-petition general unsecured claims, discussed in note 7, pursuant to the Plan of Reorganization, such holders were granted warrants to purchase shares up to an additional 23.75 million shares of New Common Stock.

The warrants consist of:

- Series A Warrants to purchase 9.5 million shares of New Common Stock at an exercise price of \$6.25 per share;

- Series B Warrants to purchase approximately 7.1 million shares of New Common Stock at an exercise price of \$7.50 per share; and
- Series C Warrants to purchase approximately 7.1 million shares of New Common Stock at an exercise price of \$10.00 per share.

The warrants are included in reorganized XO's common stock in the accompanying condensed consolidated balance sheet. The warrants will expire 7 years after the date of issuance. The exercise price applicable to each respective series of warrants is subject to adjustment in certain events. Of the warrants distributed under the Plan of Reorganization, XO estimates Cardiff received Series A Warrants to purchase approximately 3.0 million shares of New Common Stock, Series B Warrants to purchase approximately 2.3 million shares of New Common Stock, and Series C Warrants to purchase approximately 2.3 million shares of New Common Stock.

The Company's pre-petition Class A common stock stopped trading on the National Association of Securities Dealers, Inc. Over-the-Counter Bulletin Board (the "OTCBB") as of the Effective Date, and the Company's New Common Stock began trading on the OTCBB and the pink sheets (www.pinksheets.com) under the symbol "XOCM" shortly thereafter. Pursuant to the Plan of Reorganization, all interests in the Company's pre-petition Class A and Class B common stock were terminated as of the Effective Date. As discussed in note 2, the Company's pre-petition redeemable preferred stock was cancelled and discharged and the holders of such securities received no distribution under the Plan of Reorganization, but are entitled to participate in a rights offering to be undertaken in accordance with the Plan of Reorganization.

9. OPERATING SEGMENTS

The Company operates its business as one communications segment and classifies its products and services revenues offered by its communications services segment into voice services, data services and integrated voice and data services (dollars in thousands):

	Reorganized XO Three months ended March 31, 2003	Predecessor XO Three months ended March 31, 2002
Voice services.....	\$ 150,723	\$ 168,834
Data services.....	101,977	135,761
Integrated voice and data services	<u>33,393</u>	<u>28,810</u>
Total revenue.....	<u>\$ 286,093</u>	<u>\$ 333,405</u>

10. RELATED PARTY TRANSACTIONS

In February 2003, Dixon Properties, LLC ("Dixon"), which is controlled by Mr. Icahn, acquired ownership of the building in which XO headquarters is located in a transaction that was approved by the Bankruptcy Court. XO currently leases approximately 170,000 square feet of space in that building. In connection with Dixon's purchase of the building, it assumed the Company's existing lease agreement and amended the lease to include certain terms that are more favorable to the Company. Pursuant to the assumed lease agreement, XO is obligated to pay approximately \$19.0 million in the aggregate to Dixon through the expiration of the initial term of the lease, which is November 30, 2007.

XO Parent has entered into a Tax Allocation Agreement, dated January 16, 2003, between XO Parent and Starfire Holding Corporation ("Starfire"), the parent entity of the affiliated group of corporations controlled by Mr. Icahn, which in turn indirectly controls Cardiff, because it is contemplated that these entities will be filing consolidated federal income tax returns, and possibly combined returns for state tax purposes. The Tax Allocation Agreement, which was approved by the Bankruptcy Court in connection with XO Parent's Chapter 11 proceedings, establishes the methodology for the calculation and payment of income taxes in connection with the consolidation of the Company with Starfire for income tax purposes. Generally, the Tax Allocation Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the consolidated group that includes the Company, and the Company will make payments to Starfire in an amount equal to the tax liability, if any, that it would have if it were to file as a consolidated group separate and apart from Starfire.

The Company provides certain telecommunications services to affiliates of Mr. Icahn at rates that the Company believes are comparable to rates charged other customers that purchase similar services and volumes. For the three months ended March 31, 2003, the Company recognized revenue of approximately \$88 thousand with respect to these services and had outstanding receivables for such services at March 31, 2003 of approximately \$83 thousand.

11. STOCK-BASED COMPENSATION

Upon the Effective Date of the Plan of Reorganization, all options under the predecessor XO stock option plans were cancelled and the plans were terminated. Upon consummation of the Plan of Reorganization, on the Effective Date, the XO Communications, Inc. 2002 Stock Incentive Plan ("the 2002 Stock Incentive Plan") was adopted. Under the 2002 Stock Incentive Plan, the Company is authorized to issue awards in the form of restricted stock or options to purchase stock, pursuant to which up to 17.6 million shares of New Common Stock may be issued. Non-qualified options to purchase 11.4 million shares of New Common Stock have been granted and are outstanding as of March 31, 2003.

12. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is not currently a party to any legal proceedings, other than regulatory and other proceedings that are in the normal course of business. However, as discussed above, although XO Parent has consummated its Plan of Reorganization and emerged from its Chapter 11 proceedings, disputes with respect to the amount of allowed claims owed by XO Parent to certain of its general unsecured creditors, and claims of certain professionals remain outstanding. In addition, a party has filed a complaint in the Bankruptcy Court seeking relief from the court's order confirming the Plan of Reorganization and a declaratory judgment that such party's derivative suit for the benefit of the Company against a former director of XO Parent and an affiliate of that director should not be released by the confirmation order. While the outcome of these matters, or any other relief that may be granted, is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Prepaid Calling Card Tax Matter

On July 26, 2002, the Company was advised by the staff of the Commission that it was conducting an informal inquiry primarily relating to the Company's obligations with respect to, and its accrual of liabilities for, specified federal excise and state sales tax and similar tax obligations arising in connection with prepaid calling card services and relating to certain other matters. Sales from prepaid calling card services that are potentially subject to these taxes accounted for approximately \$56 million of the Company's total revenues from 1999, when the Company began providing these services, through June 30, 2002. The Company believes that its accounting for these potential tax obligations is appropriate and that its accruals of liabilities relating to these obligations are adequate.

Unfunded Affiliate Pension Obligation

As affiliates of Mr. Icahn hold over 80% of the outstanding New Common Stock of XO Parent, applicable pension and tax laws make each member of a plan sponsor's "controlled group" (generally defined as entities in which there is at least an 80% common ownership interest) jointly and severally liable for certain pension plan obligations of the plan sponsor. These pension obligations include ongoing contributions to fund the plan, as well as liability for any unfunded liabilities that may exist at the time the plan is terminated. In addition, the failure to pay these pension obligations when due may result in the creation of liens in favor of the pension plan or the Pension Benefit Guaranty Corporation, (the "PBGC") against the assets of each member of the plan sponsor's controlled group.

As a result of the more than 80% ownership interest in XO Parent by Mr. Icahn's affiliates, XO Parent and its subsidiaries will be subject to the pension liabilities of any entities in which Mr. Icahn has a direct or indirect ownership interest of at least 80%, which includes ACF Industries, Inc. ("ACF"), which is the sponsor of certain pension plans. As most recently determined by the ACF plans' actuaries, pension plans maintained by ACF are underfunded in the aggregate by approximately \$14 million on an ongoing actuarial basis and by approximately \$102 million if those plans were terminated. As a member of the same controlled group, XO Parent and each of its subsidiaries would be liable for any failure of ACF to make ongoing pension contributions or to pay the unfunded liabilities upon a termination of the ACF pension plans.

The current underfunded status of the ACF pension plans requires ACF to notify the PBGC if XO Parent or its subsidiaries cease to be a member of the ACF controlled group. In addition, so long as the Company remains a member of the ACF controlled group, certain other "reportable events," including certain extraordinary dividends and stock redemptions, must be reported to the PBGC.

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking and Cautionary Statements

Some of the statements contained in this filing discuss future expectations and business strategies or include other "forward-looking" information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. We undertake no obligation to publicly update or revise any forward-looking statements.

Overview

We provide a comprehensive array of voice and data communications services to business customers. Our voice services include local and long distance, both bundled and standalone, other voice-related services such as conferencing, domestic and international toll free services and voicemail, and transactions processing services for prepaid calling cards. Our data services include Internet access, private data networking, including dedicated transmission capacity on our networks, virtual private network services and Ethernet services, and hosting services. We also combine many of these services in flat rate service packages. These services are offered to a variety of customers, including small, medium and large retail business, multi-location businesses and carrier or wholesale customers.

To serve our customers' broad and expanding telecommunications needs, we operate a network comprised of a series of rings of fiber optic cables located in the central business districts of numerous metropolitan areas, which we refer to as metro fiber networks, that are connected primarily by a network of numerous dedicated wavelengths on fiber optic cables, which we refer to as an intercity network. By integrating these networks with advanced communications technologies, we are able to provide a comprehensive array of communications services entirely over a network that we own or control, from the initiation of the voice or data transmission to the point of termination, which we refer to as end-to-end service. This capability enables us to provide communication services between customers connected to our network and among customers with multiple locations entirely over our network.

To develop these networks, we have assembled a collection of metro and inter-city network assets in the United States, substantially all of which we own or control, making us a facilities-based carrier. These network assets incorporate state-of-the-art fiber optic cable, dedicated wavelengths of transmission capacity on fiber optic networks and transmission equipment capable of carrying high volumes of data, voice, video and Internet traffic. We operate 37 metro broadband fiber optic networks in 22 states and the District of Columbia, including 25 of the 30 largest metropolitan areas in the U.S. We have constructed or acquired many of these metro networks, which consist of up to 432 strands of fiber optic cable and, in some cases, additional empty fiber conduits through which fiber optic cable can be deployed. For our inter-city network, we have acquired dedicated, high-capacity wavelengths on fiber optic cables, onto which we have deployed our own switching, routing and optical equipment, thereby giving us greater control over the transmission of voice and data information. We also hold indefeasible exclusive rights to use 18 unlit fiber optic strands on the routes served by our intercity networks pursuant to arrangements with Level 3 Communications, Inc.

Recent Events

Announcement of Chief Executive Officer Appointment

On April 28, 2003, we announced that we had hired Carl J. Grivner as our new Chief Executive Officer effective May 15, 2003. Effective May 1, 2003, Mr. Grivner joined XO as a member of the newly created Office of the Chairman. Mr. Grivner's career in telecom and technology spans more than 25 years. He most recently served as Chief Operating Officer of Global Crossing, Ltd. Prior to joining Global Crossing in June 2000, Mr. Grivner served as Chief Executive Officer of Worldport Communications and before that he served as Chief Executive Officer, Western Hemisphere, of Cable & Wireless PLC. Additionally, Mr. Grivner has held various senior executive positions at Advanced Fiber Communications and Ameritech.

Our Chapter 11 Reorganization and Emergence

The Reorganization Proceedings

On June 17, 2002, XO Parent filed for protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. On November 15, 2002, the Bankruptcy Court confirmed XO Parent's plan of reorganization, and, on January 16, 2003, the Effective Date, XO Parent consummated the plan of reorganization and it emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet. As described in more detail in our annual report on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 21, 2003, hereinafter referred to as the 2002 Annual Report, the consummation of the Plan of Reorganization resulted in the following changes in our debt and equity capital structure:

- The conversion of \$1.0 billion of loans under XO Parent's pre-petition senior secured credit facility, which we refer to as the Pre-Petition Credit Facility, into \$500.0 million of outstanding principal amount which we refer to as the New Credit Agreement;
- The extinguishment of all amounts due under our pre-petition unsecured senior and subordinated notes and certain general unsecured obligations; and
- The cancellation of all outstanding shares and interest in our pre-petition preferred stock and pre-petition common stock.

Under our Plan of Reorganization the following equity securities have been or will be distributed to holders of XO Parent's Pre-Petition Credit Facility, pre-petition unsecured senior subordinated notes, and pre-petition general unsecured claims:

- 95.0 million shares of common stock of the reorganized company, which we refer to as the New Common Stock;
- Series A Warrants to purchase 9.5 million shares of New Common Stock at an exercise price of \$6.25 per share;
- Series B Warrants to purchase approximately 7.1 million shares of New Common Stock at an exercise price of \$7.50 per share; and
- Series C Warrants to purchase approximately 7.1 million shares of New Common Stock at an exercise price of \$10.00 per share.

Under the Plan of Reorganization and after the Securities and Exchange Commission, or the SEC, has declared effective our registration statement, XO Parent will issue to certain holders of claims and/or interests in XO Parent who held such claims and/or interests as of the November 15, 2002 record date, rights to subscribe for up to 40,000,000 shares of New Common Stock, at \$5.00 per share for an aggregate purchase price of up to \$200.0 million through a rights offering, which we refer to as the Rights Offering. In addition, holders of shares of pre-petition class A common stock of XO Parent will receive additional nontransferable rights to the extent that the rights otherwise allocable to such holders in the Rights Offering are exercisable for less than 3,333,333 shares of New Common Stock. Accordingly, not less than 40,000,000 and not more than 43,333,333 shares at \$5.00 per share will be offered in the Rights Offering.

Pursuant to the order confirming the Plan of Reorganization, the Rights Offering will not take place until the date a registration statement covering the offer and sale of such rights and shares to be offered thereunder is filed with the SEC and such Registration Statement becomes effective. We have not yet filed a registration statement with respect to the rights and the Rights Offering.

Distributions to and Interests Held by Entities Controlled by Mr. Carl C. Icahn

After the initial distribution of New Common Stock pursuant to the Plan of Reorganization, Cardiff Holding LLC, a Delaware limited liability company controlled by Mr. Carl C. Icahn, holds more than 80% of the outstanding shares of New Common Stock. Of the warrants to be distributed under the Plan of Reorganization to holders of the pre-petition senior unsecured notes, we estimate Cardiff will receive Series A Warrants to purchase approximately 3.0 million shares of New Common Stock, Series B Warrants to purchase approximately 2.3 million shares of New Common Stock, and Series C Warrants to purchase approximately 2.3 million shares of New Common Stock. In

addition, approximately 85% of the \$500.0 million in loans outstanding under the New Credit Agreement are held by Amos Corp., an entity which is also controlled by Mr. Icahn.

Accounting Impact of Implementing the Plan of Reorganization

Due to XO Parent's emergence from its Chapter 11 proceeding, we have implemented the "fresh start" accounting provisions of the American Institute of Certified Public Accountants, or the AICPA, Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," hereinafter referred to as SOP 90-7, to our financial statements. Fresh start requires that, upon our emergence, we establish a "fair value" basis for the carrying value of the assets and liabilities for reorganized XO. Although the effective date of the Plan of Reorganization was January 16, 2003, due to the immateriality of the results of operations for the period between January 1, 2003 and the Effective Date, we accounted for the consummation of the Plan of Reorganization as if it had occurred on January 1, 2003 and implemented fresh start as of that date. The January 1, 2003 balance sheet included in the accompanying condensed consolidated financial statements set forth in Item 1 above, and in note 2 to such financial statements, illustrates the impact of applying fresh start.

Comparison of Financial Results

As a consequence of the Chapter 11 reorganization, the first quarter financial results have been separately presented under the label "Reorganized XO" for the period January 1, 2003 to March 31, 2003. The results for "Predecessor XO" for January 1, 2003 reflect solely the impact of the application of fresh start on that date. The reorganized Company has adopted the policy of expensing customer installation costs and internal labor directly associated with network construction in the period in which the costs are incurred. The predecessor Company capitalized and amortized these costs. In accordance with SOP 90-7, the reorganized Company was required to implement newly issued accounting pronouncements that would require adoption within twelve months of applying fresh start.

The operational results for the quarter are discussed below.

Three Months Ended March 31, 2003 versus Three Months Ended March 31, 2002

Revenue. Total revenue for the three months ended March 31, 2003 decreased 14.2% to \$286.1 million from \$333.4 million in the same period of 2002. The decline is primarily due to a high level of customer disconnects due to reduced demand from other telecommunications companies, customer bankruptcies in the telecommunication industry, and the weakened economy. In addition, sales productivity was reduced due to fewer direct sales representatives and adverse public perception that accompanied our Chapter 11 proceedings. To increase sales activity in 2003, we are in the process of hiring additional direct sales personnel. Programs launched in 2002 to decrease customer disconnects will continue. New order entry and order processing systems, which are designed to improve speed and efficiency of new customer installations, are partially installed, and we expect to complete installation of these systems in the second half of 2003. We believe that total revenue in the near term will remain relatively stable with first quarter 2003 results. Given our recent emergence from bankruptcy and continued uncertainty in the economy and our industry specifically, we are unable to predict revenue trends in future periods. Revenue was earned from providing the following services (dollars in thousands):

	Reorganized XO Three Months Ended March 31,		Predecessor XO Three Months Ended March 31,		% Change
	2003	% of Revenue	2002	% of Revenue	
Voice services	\$ 150,723	52.7%	\$ 168,834	50.7%	(10.7%)
Data services	101,977	35.6%	135,761	40.7%	(24.9%)
Integrated voice and data	33,393	11.7%	28,810	8.6%	15.9%
Total revenue.....	<u>\$ 286,093</u>	<u>100.0%</u>	<u>\$ 333,405</u>	<u>100.0%</u>	(14.2%)

Voice services revenue includes revenue from bundled local and long distance voice services, prepaid calling card processing, and other voice communications based services, interactive voice response services and stand-alone long distance services. Voice services revenue in the first quarter of 2003 decreased to \$150.7 million from \$168.8 million in the first quarter of 2002. The decrease is primarily attributable to customer bankruptcy impacts in the telecommunications industry, continued customer disconnects due to the state of the economy and reduced sales productivity in 2002 due to our bankruptcy filing.

Data services revenue includes revenue from Internet access, network access and web applications hosting services. Data services revenue in the first quarter of 2003 decreased to \$102.0 million from \$135.8 million in the first quarter of 2002. The decline was attributable to customer bankruptcies, continued customer dis connects, and a lower demand from large customers due to reductions in those customers' data capacity needs. The sale of our European operations in February 2002 also contributed somewhat to this decline.

Integrated voice and data services revenue is generated largely from our XOptions service offerings, a flat-rate bundled package offering a combination of voice and data services. Integrated voice and data services revenue in the first quarter of 2003 increased to \$33.4 million from \$28.8 million in the first quarter of 2002. The increase is due to the success of our XOptions service offering.

Costs and expenses. The table below provides costs and expenses by classification and as a percentage of revenue (dollars in thousands):

	Reorganized XO Three Months Ended March 31,		Predecessor XO Three Months Ended March 31,		
	2003	% of Revenue	2002	% of Revenue	% Change
Costs and expenses:					
Cost of service.....	\$ 107,506	37.6%	\$ 140,367	42.1%	(23.4%)
Selling, operating and general.....	166,235	58.1%	205,250	61.6%	(19.0%)
Stock-based compensation.....	—	—	9,095	2.7%	NM
Depreciation and amortization.....	26,367	9.2%	161,356	48.4%	NM
Total.....	<u>\$ 300,108</u>		<u>\$ 516,068</u>		(41.9%)

NM - Not Meaningful

Cost of service. Cost of service includes expenses directly associated with providing telecommunications services to our customers. Cost of service includes, among other items, the cost of connecting customers to our networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party providers for interconnect access and transport services. Cost of service for the three months ended March 31, 2003 of \$107.5 million decreased in absolute dollars and as a percentage of revenue versus \$140.4 million in the period ended March 31, 2002. The year over year 2003 decline was due primarily to cost optimization programs which reduced expenses by transferring traffic from leased facilities onto our owned or controlled facilities, reduced costs due to customer disconnects and approximately \$6.4 million of net benefit associated with favorable resolution of disputed third party costs. The decline was somewhat offset by our adoption of an accounting policy during the first quarter of 2003, to cease the deferral of costs associated with the installation of customer services and expense such installation costs as incurred.

We anticipate that cost of service will increase to historical levels as a percentage of revenue in future periods, based on our expectation that the reduction in expenses resulting from favorable dispute resolutions will be less than we experienced in the first quarter of 2003. In addition, we expect cost of service will also fluctuate based on trends in revenue, product mix, the impact of customer bankruptcies and regulatory decisions.

Selling, operating and general. Selling, operating and general expense includes expenses related to sales and marketing, internal network operations and engineering, information systems, general corporate office functions and collection risks. Selling, operating and general expense in the first quarter of 2003 was \$166.2 million versus \$205.3 million in the first quarter of 2002. Selling, operating and general expense decreased due to the centralization of many functions, cost reduction and restructuring initiatives that included significant headcount reductions and savings from the planned exit of our European operations. In addition, recording our real estate contracts at their fair value, as required by fresh start, contributed to the decrease. The decline was somewhat offset by our adoption of the policy of expensing internal labor directly associated with the construction of our network, which resulted in a \$5.7 million increase in selling, operating and general expense in that period.

We expect selling, operating and general expense to increase in absolute dollars for the remainder of 2003 due primarily to new sales incentive programs and increased compensation costs.

Stock-based compensation. Stock-based compensation expense represents non-cash charges recorded in connection with the grant of compensatory stock options and restricted stock to employees whose compensation is included in selling, operating and general expense. During the first quarter of 2003, XO incurred no stock-based

compensation expense as its deferred compensation balance was eliminated in conjunction with fresh start. XO incurred \$9.1 million in deferred compensation expense in the first quarter of 2002. The reorganized company will recognize stock-based compensation only with respect to any new grants of compensatory stock options and restricted stock.

Depreciation and amortization. As discussed above, we implemented fresh start on January 1, 2003 which resulted in a reduction of the carrying value of our property and equipment to its estimated fair value which is significantly lower than historical cost. Consequently, depreciation expense decreased to \$19.9 million in the first quarter of 2003, versus \$135.1 million in the first quarter of 2002. Amortization expense includes the amortization of fixed wireless licenses and other intangible assets with definite lives. As a result of fresh start accounting, the carrying value of fixed wireless licenses and intangible assets were adjusted to their estimated fair value. The aggregate estimated fair value of these assets is significantly lower than their historical cost. Total amortization expense decreased to \$6.5 million for the first quarter of 2003 versus \$26.3 million in the first quarter of 2002.

We would expect depreciation and amortization expense for the remainder of the year to continue to track with the first quarter 2003 amount. As of March 31, 2003, we had approximately \$606 million of long-lived assets, including approximately \$94 million of construction-in-progress and certain fixed wireless licenses that are not currently ready for their intended use and accordingly, are not currently being depreciated or amortized.

Interest income. Interest income in the first quarter of 2003 decreased to \$3.2 million from \$5.5 million in the first quarter of 2002. The decrease in interest income is due to reduced interest rates.

Interest expense, net. Interest expense, net in the first quarter of 2003 decreased to \$9.7 million from \$120.7 million in the first quarter of 2002. The significant reduction was principally caused by the cancellation of our pre-petition senior notes, pre-petition convertible subordinated notes and the Pre-Petition Credit Facility upon consummation of our Plan of Reorganization. Interest expense for the three months ended March 31, 2003 primarily relates to interest accreted on the New Credit Agreement.

Other income (loss), net. Other income (loss), net was zero in the first quarter of 2003, versus a net loss of \$0.2 million in the first quarter of 2002.

Net income (loss) before cumulative effect of accounting change. Net loss before cumulative effect of accounting change for the reorganized company in the first quarter of 2003 was \$20.5 million versus a net loss before cumulative effect of accounting change of \$299.0 million for the predecessor company in the first quarter of 2002, due to the foregoing factors.

Cumulative effect of accounting change. We performed the required impairment tests of goodwill as required by SFAS No. 142 as of January 1, 2002. Based on these tests, we recorded a \$1,876.6 million impairment charge to write-off all of our goodwill as a cumulative effect of accounting change during the first quarter of 2002.

Net income (loss). Net loss for the reorganized company in the first quarter of 2003 was \$20.5 million versus a net loss for the predecessor company for the first quarter of 2002 of \$2,175.7 million, due to the foregoing factors.

Preferred stock dividends and accretion of preferred stock redemption obligation, net. As a result of our implementation of fresh start, as discussed above, our pre-petition redeemable preferred stock has been cancelled and discharged. As a result, the reorganized company recorded no preferred stock dividends during the first quarter of 2003 versus \$22.8 million net expense for the predecessor company's first quarter of 2002.

Net income (loss) applicable to common shares. Net loss applicable to common shares for the reorganized company in the first quarter of 2003 was \$20.5 million. Net loss applicable to common shares for the predecessor company was \$2,198.5 million in the first quarter of 2002.

Critical Accounting Policies

Our significant accounting policies are more fully described in the notes to the consolidated financial statements in our 2002 Annual Report and in note 3 to the accompanying condensed consolidated financial statements set forth in Item 1 above. The preparation of the condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Management uses historical experience and all available information to make these judgments and estimates and actual results could differ from those estimates

and assumptions that are used to prepare our financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis and the accompanying condensed consolidated financial statements and footnotes provide a meaningful and fair perspective of our financial condition and our operating results for the current period. Management believes the following critical accounting policies represent the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Long-Lived Assets

Our long-lived assets include property and equipment, fixed wireless licenses, and identifiable intangible assets to be held and used. Property and equipment acquired prior to December 31, 2002 is stated at fair value as required by fresh start, net of accumulated depreciation. Additions to property and equipment during 2003 are stated at historical cost, net of accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of telecommunications networks and acquired bandwidth are 3 to 20 years and 5 to 7 years for furniture fixtures, equipment and other. These useful lives are determined based on historical usage with consideration given to technological changes and trends in the industry that could impact the network architecture and asset utilization. This latter assessment is significant because we operate within an industry in which new technological changes could render some or all of our network related equipment obsolete requiring application of a shorter useful life or, in certain circumstances, a write-off of the entire value of the asset. Accordingly, in making this assessment, we consider our planned use of the assets, the views of experts both from internal and outside sources regarding the impact of technological advances and trends in the industry on the value and useful lives of our network assets. Costs of additions and improvements (other than internal labor costs related to network construction, as discussed below) are capitalized and repairs and maintenance are charged to expense as incurred. Direct external costs of constructing property and equipment are capitalized including interest costs related to construction. The reorganized Company has adopted the policy of expensing internal labor directly associated with network construction in the period in which the costs are incurred.

Investments in fixed wireless licenses acquired prior to December 31, 2002 are stated at fair value as required by fresh start, net of accumulated amortization. We are amortizing these over the license period of 10 years as determined by the Federal Communications Commission. Other intangibles consist of customer relationships, internally developed technology and XO's trade name. The customer relationships and internally developed technology are being amortized using the straight-line method over the estimated useful lives of three years. The XO trade name was determined to have an indefinite life and is not being amortized, but is reviewed at least annually for impairment, as required under Statement of Financial Accounting Standards, or SFAS, No. 142 "Goodwill and Other Intangible Assets," or SFAS No. 142.

Depreciation or amortization of the long-lived asset begins when the asset is substantially complete or placed into service. At March 31, 2003, our balance sheet includes approximately \$606 million of long-lived assets, including approximately \$94 million of construction-in-process and certain fixed wireless licenses, that were either not ready for their intended use or not placed into service, and accordingly are not being depreciated or amortized.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," or SFAS No. 144. The criteria for determining impairment for long-lived assets to be held and used is determined by comparing the carrying value of these long-lived assets to management's best estimate of future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. We believe that no impairment existed under SFAS No. 144 as of March 31, 2003. In the event that there are changes in the planned use of our long-lived assets or our expected future undiscounted cash flows are reduced significantly, our assessment of our ability to recover the carrying value of these assets under SFAS No. 144 could change.

Revenue Recognition

Revenues from telecommunications services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collectibility is probable. In circumstances when these criteria are not met, revenue recognition is deferred until resolution occurs. For example, if a customer files bankruptcy, we believe the probability of collection is weakened. Consequently, under such circumstances, although we continue to bill the customer for all services provided, we do not recognize revenue until cash is received. In addition, telecommunications customers often dispute the amounts that we invoice them due to regulatory issues, late payment fees and disconnection penalties based on differences of opinion regarding contract terms or service

levels. Accordingly, these billings are not considered fixed and determinable and collection of such amounts is not considered probable while these disputed amounts are billed, revenue recognition is deferred until the dispute is resolved and the cash is collected.

Service discounts and incentives related to telecommunications services are recorded as a reduction of revenue when granted or ratably over a contract period. Fees billed in connection with customer installations and other upfront fees are deferred and recognized ratably over the estimated customer life. The estimated customer life is calculated by analyzing customer disconnects as a percentage of revenue. This calculation is reviewed every quarter.

Revenue from the sale or lease of unlit network capacity is recognized upon consummation of the transaction and the acquirer's acceptance of the capacity in instances when we receive upfront cash payments and are contractually obligated to transfer title to the specified capacity at the end of the contract term. If the transaction does not meet these criteria, revenue is recognized ratably over the contract term. There were no sales of unlit capacity during the three months ended March 31, 2003 and March 31, 2002.

We establish an allowance for collection of doubtful accounts and other sales credit adjustments. Allowances for sales credits are established through a charge to revenue, while allowances for doubtful accounts are established through a charge to selling, operating and general expenses. We assess the adequacy of these reserves monthly by considering general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the credit worthiness of our customers. As considered necessary, we also assess the ability of specific customers to meet their financial obligations to us and establish specific valuation allowances based on the amount we expect to collect from these customers. We can and have experienced material changes to our reserve requirements on a month to month basis as significant customers have in the past unexpectedly filed for bankruptcy or otherwise became insolvent. We believe that our established valuation allowances were adequate as of March 31, 2003. If circumstances relating to specific customers change or economic conditions worsen such that our past collection experience and assessment of the economic environment are no longer valid, our estimate of the recoverability of our trade receivables could be changed. If this occurs, we would adjust our valuation allowance in the period the new information is known.

Cost of Service

Cost of service includes expenses directly associated with providing telecommunications services to customers, including, among other items, the cost of connecting customers to our networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party providers for interconnect access and transport services. All such costs are expensed as incurred. We accrue for the expected costs of services received from third party telecommunications providers during the period the services are rendered. Invoices received from the third party telecommunications providers are often disputed due to billing discrepancies. We accrue for all invoiced amounts, even amounts in dispute, as these amounts represent contingent liabilities that are considered probable and measurable. Disputes resolved in our favor may reduce cost of service in the period the dispute is settled and typically reflect costs paid in prior periods. Because the period of time required to resolve these types of disputes often lapses over several quarters, the benefits associated with the favorable resolution of such disputes normally are realized in periods subsequent to the accrual of the disputed invoice.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, or FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," or SFAS No. 143, which requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which a legal or contractual removal obligation is incurred if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, SFAS No. 143 requires the liability to be recognized when a reasonable estimate of the fair value can be made. As required by SOP 90-7, we implemented SFAS No. 143 on January 1, 2003, in conjunction with the implementation of fresh start and recorded an estimated asset retirement obligation of \$12.0 million, as disclosed in note 5 to the accompanying condensed consolidated financial statements.

Effective January 1, 2003, we adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002" or SFAS No. 145, which eliminates the requirement to report material gains or losses from debt extinguishments as an extraordinary item, net of any applicable income tax effect, in an entity's statement of operations. SFAS No. 145 instead requires that a gain or loss recognized from a debt extinguishment be classified as an extraordinary item only when the extinguishment

meets the criteria of both “unusual in nature” and “infrequent in occurrence” as prescribed under Accounting Principles Board Opinion, or APB, No. 30, “Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions”. The adoption of SFAS No. 145 had no effect on our financial position or results of operations for the three months ended March 31, 2003 and 2002. We recognized extraordinary gains from debt repurchases in the third and fourth quarters of 2001. In the future, such gains will be reclassified in the respective consolidated statements of operations in accordance with SFAS No. 145.

Effective January 1, 2003, we adopted SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” or SFAS No. 146, which requires that costs, including severance costs, associated with exit or disposal activities be recorded at their fair value when a liability has been incurred. Under previous guidance, certain exit costs, including severance costs, were accrued upon managements’ commitment to an exit plan, which is generally before an actual liability has been incurred. In the first quarter of 2003, we did not have any exit or disposal activities initiated after December 31, 2002; however, the provisions of SFAS No. 146 were implemented in conjunction with our implementation of fresh start accounting. Accordingly, as disclosed in note 6 to the accompanying condensed consolidated financial statements, our remaining restructuring accrual has been reduced to its net present value.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure,” or SFAS No. 148 amends SFAS No. 123, “Accounting for Stock-Based Compensation,” or SFAS No. 123, to provide alternative methods of transition to SFAS No. 123’s fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, “Interim Financial Reporting,” or APB No. 28, to require disclosure in the summary of significant accounting policies of the effects of an entity’s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 28. Effective January 1, 2003, we adopted the disclosure provisions of SFAS No. 148. As allowed by SFAS No. 148, we have chosen to continue to account for compensation cost associated with our employee stock plans in accordance with the intrinsic value method prescribed by APB No. 25, “Accounting for Stock Issued to Employees,” or APB No. 25.

Liquidity and Capital Resources

Our goal is to provide our customers complete, integrated, voice and data network applications and services primarily through networks that we own or control. We believe that the consummation of our Plan of Reorganization and the changes in our capital structure as a result of our emergence from Chapter 11 bankruptcy along with the various initiatives we have undertaken to reduce operating costs and capital expenditures over the past two years, position us to be able to successfully execute our business plans and generate cash flow over the long term. However, in the near term we expect to incur net negative cash flows from operating and investing activities.

Capital Uses

Our balance of cash and marketable securities decreased to \$538.4 million at March 31, 2003 from \$561.0 million at December 31, 2002. This decrease resulted principally from the transfer of \$25.0 million to an escrow deposit in conjunction with an agreement to indemnify certain former directors, and executive officers for any claims, liabilities, or expenses that may arise with respect to actions that occurred prior to the consummation of our Plan of Reorganization.

We have and will continue to focus on minimizing the rate at which we use our cash to fund operations and capital expenditures. For the past quarter, the reduction in the rate at which we use our cash has been accomplished by:

- improving working capital mainly through aggressive collections of our outstanding accounts receivable, and
- improving operational results due to expense reduction initiatives, which have resulted in the reduction of cost of service and selling, operating and general expenses in both absolute dollars and as a percentage of revenue.

Capital Resources and Liquidity Assessment

We expect that, in the near term, our business will use existing cash to fund capital expenditures and working capital requirements. The majority of our planned capital expenditure requirements will be “success-based” in that they will be used to purchase and install optical equipment, channel banks, routers, servers or other customer-related equipment and electronics in connection with growing revenue by adding new customers or increasing the amount of services provided to existing customers. Much of the remaining planned capital expenditures will be for the continued development and implementation of our information systems to support and enhance the provisioning and billing of new and existing customers. Part of our working capital requirements are commitments under lease and contractual obligations for software licenses and ongoing support of software for IT and network applications.

There are no additional borrowings available under our New Credit Agreement, although, under certain circumstances, the New Credit Agreement permits us to obtain a senior secured facility of up to \$200.0 million, less the amount of any proceeds from the Rights Offering, so long as the terms are satisfactory to the administrative agent and holders of a majority of the principal amount of the loans outstanding under the New Credit Agreement. We have no current debt service requirements since automatic and permanent quarterly reductions of the principal amount outstanding under the New Credit Agreement do not commence until October 15, 2007. We are not required to pay cash for interest accrued on the principal amount under the New Credit Agreement until we meet certain financial ratios. Nevertheless, we may elect to begin paying interest in cash earlier than the required date in order to reduce the effective interest rate, but, based on our current assessment of our funding requirements, we would not anticipate making such an election in the foreseeable future.

Under the Plan of Reorganization and after the SEC has declared effective our registration statement to be filed with the SEC, XO Parent will issue to certain holders of claims and interests in XO Parent who held such claims and/or interests as of the November 15, 2002 record date, rights to subscribe for up to 43,333,333 shares of New Common Stock, at \$5.00 per share, through the Rights Offering. The closing sale price of our New Common Stock as of May 12, 2003 was \$5.72. Unless the trading price for our New Common Stock trades at levels that are consistently above the \$5.00 per share exercise price prior to the conclusion of the Rights Offering, we would not expect much, if any, additional funds to be raised through the Rights Offering. We presently expect that any proceeds received from the Rights Offering would be used to repay loans outstanding under the New Credit Agreement.

Although we expect that our balance of cash and marketable securities will decline in the near term to fund capital expenditures, working capital requirements, and other financial investments, given (i) our current assumptions with respect to trends in our business, (ii) our estimates concerning the level of capital expenditures that we will incur to support our business plan and (iii) the significant reduction in cash needed to meet our debt service requirements because we are not required to pay interest accrued on the New Credit Agreement until we meet certain financial ratios, we believe that the \$538.4 million of cash and marketable securities on hand as of March 31, 2003 will be sufficient to fund our operations until the cash flows generated by our operations are sufficient to fund our capital expenditures and debt service requirements.

Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of trade receivables. Although our trade receivables are geographically dispersed and include customers in many different industries, a portion of our revenue is generated from services provided to other telecommunications service providers. Several of these companies have filed for protection under Chapter 11 of the Bankruptcy Code. We believe that our established valuation and credit allowances are adequate as of March 31, 2003 to cover these risks. Our Board of Directors has taken actions that would permit us to make investments in a broader range of securities, including securities that may increase our credit risk.

Forward-Looking and Cautionary Statements

Some statements and information contained in this document are not historical facts, but are “forward-looking statements,” as such term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “plans,” “may,” “will,” “would,” “could,” “should,” or “anticipates” or the negative of these words or other variations of

these words or other comparable words, or by discussions of strategy that involve risks and uncertainties. Such forward-looking statements include, but are not limited to, statements regarding:

- our services, including the development and deployment of data products and services based on IP, Ethernet and other technologies and strategies to expand our targeted customer base and broaden our sales channels;
- the operation of our network, including with respect to the development of IP protocols;
- liquidity and financial resources, including anticipated capital expenditures, funding of capital expenditures and anticipated levels of indebtedness; and
- trends related to and expectations regarding the results of operations in future periods, including but not limited to those statements set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations above.

All such forward-looking statements are qualified by the inherent risks and uncertainties surrounding expectations generally, and also may materially differ from our actual experience involving any one or more of these matters and subject areas. The operation and results of our business also may be subject to the effect of other risks and uncertainties in addition to the relevant qualifying factors identified in the above in the "Liquidity Assessment" and "Risks and Uncertainties" discussion and the "Risk Factors" section of our 2002 Annual Report, including, but not limited to:

- general economic conditions in the geographic areas that we are targeting for communications services;
- the ability to achieve and maintain market penetration and average per customer revenue levels sufficient to provide financial viability to our business;
- the quality and price of similar or comparable communications services offered, or to be offered, by our current or future competitors; and
- future telecommunications-related legislation or regulatory actions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We had \$500.0 million in secured loans as of March 31, 2003. Currently we do not pay cash interest on the loans under the New Credit Agreement.

Marketable securities consist of an investment portfolio containing U.S. government agency issued and other securities with a duration of less than one year. These securities are classified as "available for sale." If interest rates were to increase or decrease immediately, it would not likely have a material impact on the fair value of these financial instruments or on the interest we would earn on our investment portfolio.

There have been no adverse changes in our exposure to market risk since December 31, 2002. We are not currently engaged in the use of off-balance sheet derivative financial instruments, to hedge or partially hedge interest rate exposure.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term disclosure controls and procedures is defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934. These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Principal Executive Officer and our Principal Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days before the filing of this quarterly report which we refer to as the Evaluation Date, and they have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information was disclosed on a timely basis in our reports filed under the Exchange Act.

Changes in Internal Controls

We maintain a system of internal accounting controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed.

For the quarter ended March 31, 2003, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

XO is not currently a party to any other legal proceedings, other than regulatory and other proceedings that are in the normal course of business. However, as discussed above, although XO Parent has consummated its Plan of Reorganization and emerged from its Chapter 11 proceedings, disputes with respect to the amount of allowed claims owed by XO Parent to certain of its general unsecured creditors, and claims of certain professionals remain outstanding. In addition, party has filed a complaint in the Bankruptcy Court seeking relief from the court's order confirming the Plan of Reorganization and a declaratory judgment that such party's derivative suit for the benefit of XO against a former director of XO Parent and an affiliate of that director should not be released by the confirmation order. While the outcome of these matters, or any other relief that may be granted, is currently not determinable, we do not expect that the ultimate costs to resolve these matters, or any other relief that may be granted, will have a material adverse effect on the our financial position, results of operations, or cash flows.

Item 2. Changes in Securities and Use of Proceeds

The initial public offering, or IPO, of our pre-petition Class A common stock closed in October 1997, pursuant to a registration statement on Form S-1 filed with the Securities and Exchange Commission (File No. 333-32001) that became effective on September 26, 1997. The net proceeds we received from the offering totaled approximately \$226.8 million. During the quarter ended March 31, 2003, we used all such proceeds from the IPO to fund operations during such period.

Item 3. Defaults Upon Securities

As of January 15, 2003, we failed to make interest payments with respect to all interest paying pre-petition senior notes, pre-petition convertible subordinated notes and the Pre-Petition Credit Facility of XO Parent or, collectively, the Payment Default Indebtedness. Consequently, the failure to make these interest payments had triggered the default provisions of the governing documents relating to the Payment Default Indebtedness and the cross-default provisions of the indentures under which all pre-petition senior discount notes of XO Parent were issued.

In addition, we failed to make dividend payments under the terms of certain of XO Parent's pre-petition series of redeemable preferred stock that, by their terms require the payment of dividends in cash during such periods.

As discussed further in the 2002 Annual Report, on January 16, 2003, the day we emerged from Chapter 11 proceedings, all of XO Parent's pre-petition senior notes, all pre-petition convertible subordinated notes, and the Pre-Petition Credit Facility were cancelled, with each respective party receiving various distributions under the confirmed Plan of Reorganization. The pre-petition redeemable preferred stock was cancelled and discharged and the holders of such securities will receive no distribution under the Plan of Reorganization.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended March 31, 2003.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Employment Term Sheet between XO Communications, Inc. and Carl J. Grivner.

10.2 Change of Control Agreement, dated April 25, 2003, by and between XO Communications, Inc. and Carl J. Grivner.

99.1 Certificate pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certificate pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

- (1) Current Report on Form 8-K filed on January 30, 2003, reporting under Item 1 the change of control of XO Parent resulting from the consummation of the Plan of Reorganization.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

XO Communications, Inc.

Date: May 14, 2003

By: /s/ Wayne M. Rehberger
Wayne M. Rehberger
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATIONS

I, Nathaniel A. Davis, certify that:

1. I have reviewed this quarterly report in Form 10-Q of XO Communications, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Nathaniel A. Davis

Nathaniel A. Davis
President and Chief Operating Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Wayne M. Rehberger, certify that:

1. I have reviewed this quarterly report in Form 10-Q of XO Communications, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Wayne M. Rehberger
 Wayne M. Rehberger
 Executive Vice President and Chief
 Financial Officer
 (Principal Financial Officer)

EXHIBIT 99.1

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 of XO Communications, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nathaniel A. Davis, President and Chief Operating Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2003

/s/ Nathaniel A. Davis
Nathaniel A. Davis
President and Chief Operating Officer
(Principal Executive Officer)

EXHIBIT 99.2

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 of XO Communications, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wayne M. Rehberger, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2003

/s/ Wayne M. Rehberger
Wayne M. Rehberger
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE NUMBER.

A. My name is Douglas Kinkoph. My business address is Two Easton Oval, Columbus, OH 43219. My telephone number is (614) 416-1468, facsimile number is 614-416-9268
My email address is _doug.kinkoph@xo.com.

Q. WHAT IS YOUR POSITION WITH XO LONG DISTANCE SERVICES, INC.?

A. I am Vice President of Regulatory Affairs.

Q. WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT, REGULATORY AND EXTERNAL AFFAIRS?

A. I am responsible for developing and implementing the Regulatory policies of XO LDS.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I began my career with the Public Utilities Commission of Ohio in 1985 as a Telecommunications Analyst. I Joined LiTel Communications in 1986 as a Tariff Analyst which later became LCI International. With LCI I held various management positions which culminated with me becoming the Vice President of Regulatory and External Affairs, where my main focus was the development and integration of federal and state public policy and legislative strategy. I joined NEXTLINK (which is now XO Communications) in 1998 as Vice President of Regulatory and External Affairs. I am responsible for the development and integration of federal and state public policy and the legislative strategy for XO's Midwest and Northeast Regions. I have over 17 years of telecommunications experience and hold a Masters Degree in Administration from Central Michigan University and a Bachelor of Science in Telecommunications Management from Ohio University.

Q. ARE YOU FAMILIAR WITH THE APPLICATION THAT XOLD SUBMITTED TO THE COMMISSION?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I am testifying in support of XOLD's application to expand its authority to provide telecommunications services in South Carolina to include facilities-based and resold local exchange telecommunications services, in addition to the interexchange services for which XOLD is already approved. The purpose of my testimony is to explain the services XOLD proposes to offer in South Carolina; to demonstrate XOLD's financial, technical managerial, and operational capabilities; and to discuss the proposed tariffs.

Q. PLEASE DESCRIBE THE CORPORATE STRUCTURE OF XOLD.

A. XO Long Distance Services, Inc., a corporation organized and existing under the laws of the State of Washington, is a wholly owned subsidiary of XO Communications, Inc. ("XO"), a Delaware corporation. XOLD was incorporated on December 11, 1997. Both companies are headquartered at: 11111 Sunset Hills Road, Reston, Virginia 20190, (703) 547-2000.

Q. PLEASE DESCRIBE THE AUTHORITY THAT XOLD SEEKS FROM THE COMMISSION.

A. By this Application, XOLD seeks to expand its authority to provide telecommunications services on a statewide basis in South Carolina to include facilities-based and resold local exchange telecommunications services. As noted, XOLD is already certified to provide interchange services within the State.

Q. PLEASE DISCUSS THE MANAGERIAL ABILITY OF XO TO PROVIDE TELECOMMUNICATIONS SERVICES IN SOUTH CAROLINA.

A. Collectively, XOLD's technical staff has designed, managed, and/or operated advanced communications facilities throughout the United States. Furthermore, XOLD's management team includes individuals with substantial experience in successfully developing, growing, and operating telecommunications businesses. The Company's management team has experience in various segments of the telecommunications

industry. Brief biographies of the management team have been appended to XOLD's Application and demonstrate that XO will be managed and operated by a team of well-qualified and seasoned telecommunications professionals who are capable of operating a telecommunications carrier that provides sophisticated, state-of-the-art telecommunications services.

Q. DESCRIBE XOLD'S FINANCIAL ABILITY TO OPERATE AS A TELECOMMUNICATIONS CARRIER.

A. Upon emergence from bankruptcy earlier this year, XO has benefited from a major reduction in debt and the creation of a new credit facility, as described below. As specifically demonstrated in XO's financial statements attached to the application, XOLD has sufficient capital on hand to fund the development and operation of its telecommunications network in South Carolina, and to meet any lease and ownership obligations associated with its provision of local exchange and interexchange services. Specifically, as shown, XO's SEC Form 10-Q filing for the quarterly period ended March 31, 2003, that includes condensed consolidated balance sheets, statements of operations and statement of cash flows, Applicant has approximately \$288.8 million in cash and cash equivalents, and \$259.6 million in marketable securities, resulting in a total of \$538.4 million available for the expansion of its business.

Q. PLEASE DESCRIBE THE OPERATIONS OF THE COMPANY AND THE SERVICES ITS PROPOSES TO OFFER IN SOUTH CAROLINA.

A. XOLD seeks the authority from the Commission to provide full scale telecommunications and data services. XOLD intends to operate as competitive local exchange service provider on a facilities-based and resale basis, as well as an interexchange service provider on a resale basis within the state of State of South

Carolina. Specifically, XOLD seeks additional authority to provide a full array of facilities-based and resold local exchange services. Applicant has no current plans to deploy equipment or facilities in South Carolina. XOLD may, however, expand its network into South Carolina if economically feasible in the future.

Q. HAS THE COMPANY EXECUTED A STIPULATION WITH THE SOUTH CAROLINA TELEPHONE COALITION?

A. Not as of yet but we are aware of the concerns of the Coalition and will enter into the Stipulation agreeing to give rural ILEC's and the Commission thirty (30)days written notice of our intent to provide local service to a customer located in a rural ILEC's service area as outlined in the Stipulation.

Q. WHAT FACILITIES WILL XOLD USE TO PROVIDE ITS PROPOSED TELECOMMUNICATIONS SERVICES?

A. Applicant has no current plans to deploy equipment or facilities in South Carolina. XOLD may, however, expand its network into South Carolina if economically feasible in the future.

Q. HOW WILL XOLD BILL FOR ITS SERVICES?

A. Services will be billed monthly by XOLD at the rates specified in its tariffs. Bills will include a toll-free number for inquiries or complaints.

Q. DOES XOLD OR AN AFFILIATED COMPANY PRESENTLY OFFER OR PROVIDE INTRASTATE LOCAL TELECOMMUNICATION SERVICES IN SOUTH CAROLINA?

A. No.

Q. HAS XOLD BEEN AUTHORIZED TO PROVIDE SERVICE IN ANY OTHER JURISDICTIONS?

A. Yes. In addition to South Carolina, XOLD is in the process of seeking authorization to provide local exchange and/or interexchange telecommunications services in Alabama, Connecticut, Kentucky, Louisiana, Maine, New Hampshire, Rhode Island, South Carolina, Vermont, and West Virginia. XO LDS is authorized to provide long distance

service in Alabama, Alaska, Arkansas, Connecticut, Hawaii, Iowa, Kentucky, Louisiana, Maine, Montana, Nebraska, New Hampshire, North Dakota, Oklahoma, Rhode Island, South Carolina, South Dakota, Vermont, West Virginia, and Wyoming. Local affiliates of XO Communications, Inc. are authorized to provide local and long distance service in Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Texas, Utah, Virginia, Washington State, Washington, DC, and Wisconsin.

Q. HOW WILL XOLD MARKET ITS SERVICES?

- A. XOLD has not determined exactly how it will market its services, but anticipates that it will use print and electronic media advertising.

Q. WILL XOLD USE TELEMARKETING AS A METHOD FOR SELLING ITS SERVICES?

- A. XO has no current plans to use telemarketing as a method for selling its services. Should we decide to do so in the future, we will notify the Commission as necessary and follow all applicable commission rules.

Q. HOW ARE CUSTOMER INQUIRIES/DISPUTES HANDLED?

- A. XOLD will offer comprehensive Customer Service, providing support throughout the relationship with each customer. Our customer service center will be staffed by fully trained professionals who will be prepared to assist clients with any request. Should a customer experiences a service impairing situation, they can dial our toll free number, 1-888-575-6398 or use the online support options on the Internet at <http://www.xo.com/care> for assistance. XOLD's Customer Service department will be available 24 hours a day, seven days per week.

Q. WHO IS THE CONTACT PERSON AT THE COMPANY THAT THE COMMISSION STAFF SHOULD CONTACT REGARDING CUSTOMER COMPLAINTS OR REGULATORY ISSUES?

- A. Dana Shaffer, Vice-President of Regulatory Affairs, Inc., 105 Molloy St., Nashville, TN 37201, telephone 615.777.7700, facsimile 615.345.1564.

Q. HAS XOLD BEEN DENIED AUTHORIZATION BY A STATE REGULATORY AGENCY?

A. No, XOLD has never been denied authorization by a state regulatory agency.

Q. HAVE XOLD OR AFFILIATED COMPANIES EVER BEEN SUBJECT TO ANY FEDERAL OR STATE INVESTIGATION REGARDING ITS SERVICES?

A. No.

Q. WHY IS THE COMPANY SEEKING WAIVERS OF CERTAIN REGULATORY REQUIREMENTS IN SOUTH CAROLINA?

A. XOLD requests a waiver of the requirements of 26 S.C. Reg. 103-61 that a carrier keep all records required by the Commission's rules and regulations within the State of South Carolina. Since the company's corporate offices are in Reston, Virginia, maintaining its books and records in South Carolina would be unduly burdensome. XOLD will have a registered agent in South Carolina and will bear any costs associated with the Commission's inspection of its books and records. XOLD also requests that it be granted a waiver of the requirement that XOLD publish its customers' names in its own telephone directory. As almost all CLECs do, XOLD intends to make arrangement with the applicable ILECs to have XOLD customer names published in their directories. Finally, XOLD requests that the Commission waive its policy for use of the USOC method of accounting. Instead XOLD requests that it be allowed to utilize the GAAP method of accounting.

Q. WILL XOLD PARTICIPATE TO THE EXTENT REQUIRED BY THIS COMMISSION IN THE SUPPORT OF UNIVERSALLY AVAILABLE TELEPHONE SERVICE AT AFFORDABLE RATES?

A. Yes, we will.

Q. WILL XOLD COMPLY WITH ALL APPLICABLE COMMISSION SERVICE QUALITY STANDARDS AND SUBMIT ANY SERVICE QUALITY REPORTS THAT ARE REQUIRED BY THE COMMISSION?

A. Yes, we will.

Q. IN YOUR OPINION, WOULD THE ISSUANCE OF A CERTIFICATE TO XOLD BE IN THE PUBLIC INTEREST?

A. Granting XOLD's Application will further the public interest by expanding the range of technologically advanced telecommunications facilities and services available to South Carolina customers. As a result, South Carolina consumers will have access to new technologies and service choices and will be able to achieve increased efficiencies and cost savings. Furthermore, XOLD's entrance into the market will increase the incentives for other telecommunications providers to operate more efficiently, offer more innovative services, reduce prices, and improve quality of service. XOLD's participation in the telecommunications market in South Carolina will thereby materially enhance the telecommunications infrastructure and facilitate economic development in the state.

Q. WILL GRANTING YOUR APPLICATION ADVERSELY IMPACT THE AVAILABILITY OF AFFORDABLE LOCAL EXCHANGE SERVICES IN SOUTH CAROLINA?

A. No. As indicated earlier, granting our application should enhance competition in the South Carolina telecommunications market. Greater competition, in turn, should increase downward pressure on rates, enhance product and service quality and diversity, and generate greater network efficiencies, all to the ultimate benefit of consumers.

Q. IS XOLD REQUESTING RELAXED REGULATORY TREATMENT?

A. Yes. XOLD requests that the Commission regulate it in the same relaxed fashion authorized in Order 98-165, Docket 97-467-C and extended to other similarly situated carriers. We understand that this flexible regulatory treatment requires that we file maximum rates for our service offerings. Local tariff filings would be presumed valid

once they are filed subject to the Commission's right to investigate the filing within thirty (30) days.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

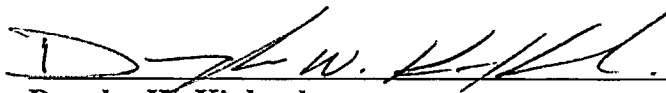
VERIFICATION

Douglas W. Kinkoph, Affiant, being duly sworn/affirmed according to law, deposes and says that:

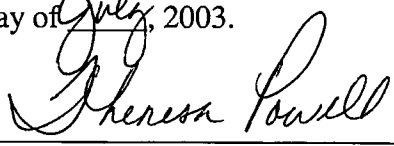
He is the Vice President of Regulatory and External Affairs of XO Long Distance Services, Inc.

That he is authorized to and does make this affidavit for said corporation;

That the facts set forth in the attached pre-filed testimony are true and correct to the best of his knowledge, information, and belief and that he expects said corporation to be able to prove the same at any hearing hereof.


 Douglas W. Kinkoph
 Vice President Regulatory & External Affairs

Sworn and subscribed before me this 15th day of July, 2003.


 Signature of official administering oath

My commission expires: Nov. 13, 2007

THERESA I. POWELL

Notary Public, State of Ohio

My Commission Expires 11/13/07